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CAREY C. THOMPSON

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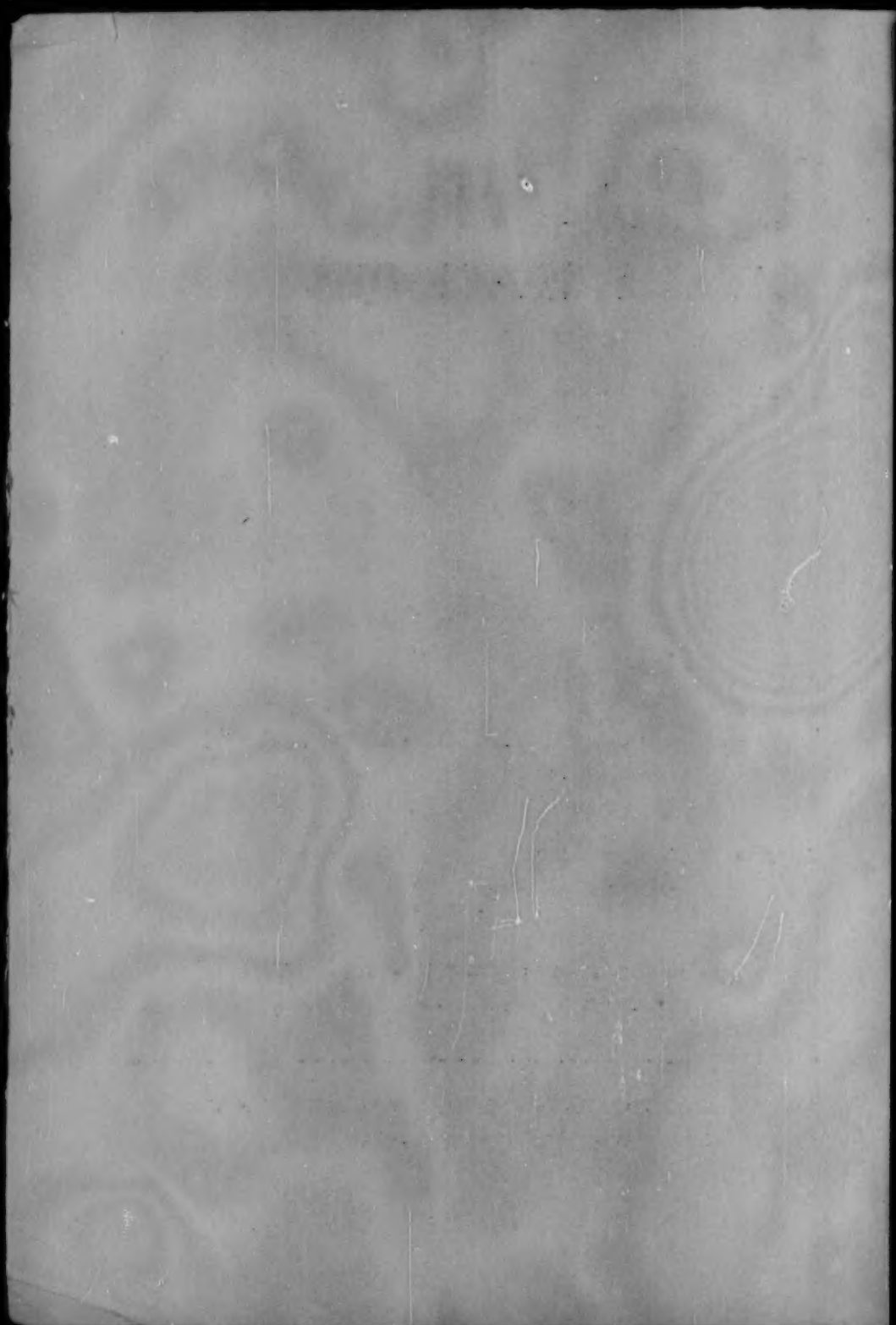
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and all membership payments should be addressed to the secretary-treasurer of the Association, Leon C. Megginson, Louisiana State University, Baton Rouge, Louisiana. Any change in address should also be reported to the secretary-treasurer. All manuscripts should be addressed to the editor, Frederic Meyers, University of Texas, Austin 12, Texas. Books for review should be sent to H. Malcolm Macdonald, Book Review Editor, University of Texas, Austin 12, Texas.

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Unemployment Insurance in Texas¹

CAREY C. THOMPSON
UNIVERSITY OF TEXAS

I

ALTHOUGH unemployment insurance owes its appearance in the United States almost entirely to the pressures generated by Congressional enactment of the Social Security Act in 1935, the development of this phase of social security has taken place very largely under state control.² While state programs must meet certain requirements in order to obtain federal grants for administrative costs and in order to qualify covered employers for the tax-offset provisions of the federal Unemployment Tax Act, such requirements have little bearing upon many of the major policy-questions that arise in unemployment insurance.³ Examination of the individual state programs is therefore necessary to determine what has happened in this aspect of social insurance in the United States. This paper will survey the Texas record and, to a limited extent, relate its status and accomplishments to those of other states. Since the various states differ so widely as to economic and political background, statutory enactment, and administrative practices, a study of this scope cannot be intended as a complete evaluation of any phase of unemployment insurance in Texas alone or in the country as a whole. It should be possible, however, even in such a limited type of presentation, to reveal

¹ The author wishes to express his thanks to the staff of the Texas Employment Commission for their kindness in making available certain factual data used in this paper. The use and interpretation of the data are, however, entirely the responsibility of the author.

² Wisconsin adopted an unemployment insurance law in 1932, and a few other states, anticipating the passage of the Social Security Act, passed such laws shortly before the national legislation went into effect. No program had, however, been fully put into operation prior to August 14, 1935, the date of approval of the Social Security Act. The material presented in this article deals only with the state programs of unemployment insurance, no consideration being given to programs that are now or have formerly been administered by the national government, such as those for railroad workers, seamen, and veterans. The term "state," when used herein, extends to Alaska, the District of Columbia, and Hawaii.

³ There is a good deal of evidence to indicate that national policy-makers could not agree in 1935 as to what proper policy should be for unemployment insurance, and the states were therefore largely left free to make their own decisions in this respect. Taxing provisions involving unemployment insurance were originally incorporated in Title IX of the Social Security Act; in 1939 they were transferred to the Internal Revenue Code as the federal Unemployment Tax Act.

the major characteristics of the unemployment insurance system of Texas and to fit them at least tentatively into a national framework.

Of the innumerable factors that have combined to make the unemployment insurance program of Texas what it now is, two seem worthy of some special notice. In the first place, the adoption of such a program was the result of forces to which Texas and Texans had made little or no contribution; unemployment insurance, as far as this state was concerned, was a matter to which no attention had been given prior to 1935.⁴ Indifference is, of course, difficult to document, but in this case it is suggested by the fact that prior to 1935 no proposed legislation on the subject was ever offered to the Texas Legislature. After August, 1935, when the Social Security Act was passed, two called sessions of the legislature were held, neither of which gave any official consideration to unemployment insurance. In August, 1936, the governor appointed a commission to study the subject and make recommendations to the legislature; in October a third called session gave rapid and apparently rather cursory consideration to unemployment insurance. As a staff correspondent of the *Dallas Morning News* phrased it:

With respect to the unemployment compensation bills which have been passed, it is safe to say that there is no member of the Legislature who would profess to have a clear and comprehensive understanding of their provisions. And it could even be said in safety that 90 per cent of them, in private, would confess a total ignorance. Yet each house passed its bill almost unanimously.⁵

Even this surface unanimity was, in its way, deceptive, for at a later stage in the passage of the legislation, this same source could say:

Some of the Senators said unkind things about the bill and then voted for it. . . . The protesting Senators vociferously objected to the Federal Government "ramming this thing down our throats," but the bill's proponents answered that it was a case of take it or leave it and miss the Federal dollars that would come to Texas by taking it. They took it.⁶

Certainly there is nothing in the record to indicate that either sympathy for, or understanding or study of, unemployment insurance had progressed far enough in Texas to allow the adoption of such a program by the state because of either general public acceptance or the usual type of partisan pres-

⁴ This condition was by no means true of Texas alone. Cf., in this connection, Harry Malisoff, "The Emergence of Unemployment Compensation," *Political Science Quarterly*, LIV (June, 1939), Part I, 237-58. Texas was certainly, however, one of the states in which unemployment insurance had been almost completely, if not entirely, ignored prior to 1935.

⁵ *Dallas Morning News*, October 11, 1936, Sec. I, p. 2. The term "unemployment compensation" is often used in the United States to refer to what is more generally known as "unemployment insurance." The broader term is preferred by the author.

⁶ *Ibid.*, October 26, 1936, Sec. I, p. 1.

sure that so often guides bills through legislative channels in this country. There were, of course, the outward manifestations of voluntary compliance, but there is little doubt that the terms of the Social Security Act forced the acceptance and initiation of unemployment insurance in this state at a time when there was almost complete ignorance as to what was being adopted. The Texas law, as passed, was in most of its provisions a verbatim reproduction of a Social Security Board draft bill prepared and published earlier in 1936.⁷ Only in this way, apparently, could the legislature feel sure that the state's program would qualify for approval by the Social Security Board.

In the second place, it is important to note that there has been little in the events of the succeeding seventeen years that would tend to stimulate interest in, and knowledge of, unemployment insurance in Texas. This circumstance arises primarily out of the fact that, very soon after the program began to function, the volume of unemployment began to decline and then, during the Second World War, dropped to an almost irreducible minimum. In these years and since the war, the Texas economy experienced an enormous expansion, an increase in levels of income and employment that outran those of the United States economy as a whole. Under these conditions the problem of unemployment moved to the fringes of public attention and interest, and there has been scant reason for any increase in the meager understanding of unemployment insurance that characterized the mid-1930's. In this connection a statement made in 1947 by a former chairman of the Texas administrative agency seems appropriate:

... in my own experience I have seldom if ever encountered an individual not directly connected with the program who professed to have any understanding of the principles, the thesis, or the practical workings of unemployment compensation, and I doubt if I should have excepted those whom I have described as having a working connection with the program.⁸

II

The record of collections, benefit payments, and fund-size for the Texas program over the period 1936-52 may well serve as an introduction to the discussion of the structure and operations of unemployment insurance in Texas. This record appears in Table 1. The material there presented reveals quite obviously that the maintenance of solvency has been no problem in the

⁷ See United States Social Security Board, *Draft Bills for State Unemployment Compensation Laws of Pooled Fund and Employer Reserve Account Types* (mimeograph, Social Security Board, Washington, D.C., January, 1936).

⁸ Harry Bengé Crozier, "Public Acceptance of the US-ES Program" (address delivered before a triregional conference of employment security administrators, Estes Park, Colorado, June 27, 1947 [mimeograph, Texas Employment Commission, Austin, Texas, July, 1947]), 1.

Texas program. The fund has shown an uninterrupted growth, since each year's collections have exceeded the year's benefit payments. Only once, in 1946, did these two figures come close to equality, and in only one other

TABLE 1

Collections, Benefit Payments, and Fund-Size of the Texas Unemployment Insurance Program, 1936-52

Year	(Amounts in millions)		Fund-Size ¹
	Collections	Benefits	
1936	\$ 5.8 ²	\$ ³	\$ ⁴
1937	14.0 ⁵	.....	19.8
1938	21.7 ⁶	9.3	32.8
1939	22.5	10.7	45.6
1940	22.1	9.9	54.8
1941	16.3 ⁷	5.7	65.9
1942	21.9	4.1	83.4
1943	25.5	0.7	110.6
1944	23.7	0.5	137.5
1945	16.8	4.0	154.2
1946	15.8	14.7	158.6
1947	20.2	7.0	175.1
1948	25.1	4.8	199.0
1949	26.3	11.9	217.3
1950	18.8 ⁸	13.3	227.8
1951	19.8 ⁹	6.0	246.7
1952	22.1	7.9	266.1

¹ Amounts given as of December 31 for each year. The increase shown each year does not coincide with the excess of collections over benefits, principally because of interest credits and the fact that substantial portions of each year's contributions are not deposited in the fund until the subsequent year.

² Tax rate of 0.9 of 1 per cent on payrolls in covered employment.

³ Benefit payments could not be made, under the Social Security Act, until two years after collections had begun. Texas payments began in January, 1938.

⁴ Deposits in the fund were inconsequential at the end of 1936, inasmuch as the law creating unemployment insurance in the state did not go into effect until October 27, 1936.

⁵ Tax rate of 1.8 per cent on payrolls in covered employment.

⁶ Tax rate of 2.7 per cent on payrolls in covered employment.

⁷ Reduced rates on employers first became available in 1941.

⁸ Further reductions in rates became available in 1950 by virtue of the 1949 amendments to the Texas law.

⁹ This figure does not include some \$1.4 millions of refunds which had to be made because of reductions in 1950 rates.

Sources: *Social Security Bulletin*, *Annual Reports* of the Texas administrative agency, and reports made by the agency to the national supervisory authority.

year, 1950, did benefits exceed one-half of the year's collections. By comparison, it may be pointed out that in three years (1946, 1949, and 1950) the combined benefit payments of all states exceeded the combined collections, and for six other years (1938-39, 1947-48, and 1951-52) benefit payments have been more than 50 per cent of collections in the respective years.⁹ To put the comparison in another way, the relative success of Texas

⁹ Unless otherwise noted, information on the operation of the combined state programs since the Second World War is drawn from the monthly publication of the Bureau of Employment Security of the United States Department of Labor, *Labor Market and Employment Security*. Data on unemployment insurance operations in the combined programs through the

in the maintenance of solvency is revealed by the fact that, from the time that benefits began until the end of 1952, total payments were only 35 per cent of total collections in this state; only two states had lower percentages. For the combined state programs, 64 per cent of collections had, through 1952, been paid out in benefits.¹⁰ Subsequent comment will be made on the adequacy of the Texas fund in comparison with the funds of other states, but the summary record here presented seems to justify the conclusion that the Texas program, as it has operated, has been quite adequately financed.

Coverage.—The taxing provisions of Title IX of the Social Security Act, which are now incorporated in the federal Unemployment Tax Act, have always heavily influenced coverage under state laws, since employers paying taxes under an approved state unemployment insurance program may offset state taxes against the federal tax up to 90 per cent of the latter. The national tax applies now, as it always has, to employers of eight or more in twenty weeks during the year. The same size-of-firm exclusion has applied in the Texas law since the original law was passed, and Texas is one of the twenty-two states now using such an exclusion.¹¹ The other twenty-nine states cover employers of smaller numbers of workers, with seventeen now covering employers of one or more. The effect of the Texas exclusion in limiting the scope of coverage for workers in this state is revealed by estimates made as of March, 1949, by the Bureau of Employment Security of the United States Department of Labor. This study indicated that covered employment in Texas would have been 24 per cent greater as of that date had the exclusion been removed; in absolute numbers, about 280,000 workers were outside unemployment insurance coverage because of the restrictions.¹² The Texas administrative agency, now the Texas Employment Com-

Second World War are, unless otherwise noted, drawn from *Issues in Social Security*, a report to the Committee on Ways and Means of the House of Representatives by the committee's social security technical staff, 79th Cong., 1st sess. (Government Printing Office, Washington, D.C., 1946). This document, often referred to as the "Calhoun Report," contains a comprehensive record of all phases of social security in the United States up to 1946. It is cited hereafter as *Issues in Social Security*.

¹⁰ "Unemployment Insurance Financial Developments through December 31, 1952," *Labor Market and Employment Security*, May, 1953, p. 20. New Mexico paid out 31 per cent of collections, Colorado 33 per cent, during this period.

¹¹ Data on current provisions of state laws have been taken, unless otherwise noted, from United States Department of Labor, Bureau of Employment Security, *Comparison of State Unemployment Insurance Laws as of December, 1951* (Government Printing Office, Washington, D.C., 1952), and "Current Reports," *Social Security Tax Service* (New York, Prentice-Hall, Inc.), I. The former publication includes material available through May, 1952; the latter has been checked through the period May, 1952–October, 1953.

¹² "State UI Laws: Size-of-Firm Restrictions," *Labor Market and Employment Security*, December, 1952, p. 30. Workers who have only part of their applicable employment in non-covered areas will ordinarily suffer a reduction in benefit amounts and/or duration should they become unemployed; those whose entire earnings records are in the noncovered areas will, of course, not be able to draw benefits at all.

mission, has recommended that coverage be extended to employers of four or more, but the size-of-firm restrictions have never been lowered.¹³ The experience of the national government in taxing employers of one or more in the OASI program and the experience of many other states that have incorporated small firms in their unemployment insurance programs indicate that there is no administrative barrier to a similar extension of Texas coverage. The state's record of inaction in this phase suggests, however, that extension of coverage will likely have to await amendment of the federal Unemployment Tax Act.¹⁴

Certain employments are now, as they have been in the past, excluded from coverage under the federal Unemployment Tax Act. Chief among such employments are agricultural labor, domestic service, service for relatives, work for nonprofit organizations and for governmental units. The states are free to extend coverage to such employments, even as they are to employers in the smaller firms, but very few of them have availed themselves of the opportunity. Some ten states allow at least a limited type of coverage for certain state or state and local employees. For the other four types of employment exclusions mentioned, no more than one state has, in each case, made any substantial effort to eliminate them. Texas is not among any of these states that have made such extensions of coverage, nor does it have a provision for automatic coverage of such employments should they later be brought under the federal Unemployment Tax Act.

Financing.—The Texas unemployment insurance program is financed by taxes on subject employers on the wages of their covered workers and by interest credits to the state for its share in the unemployment trust fund held in the United States Treasury.¹⁵ In this respect, Texas uses the same techniques employed by all other states save the two that still exact contributions from employees in addition to the employer taxes. Nine states formerly collected contributions from employees. Now only Alabama and New Jersey do so. Texas has never taxed employees. The tax at the national level is limited to the first \$3,000 of wages in a year, and this same limit has applied consistently in the state programs. Nevada has amended its law to provide for taxing the first \$3,600 of wages in a year, beginning in 1954. Texas, along with most other states, has always used the "pooled" type of fund. Only one state, Kentucky, still has the "reserve-account" type of fund, but

¹³ *Annual Report, 1947*, Texas Employment Commission, 1. The employment security agency of the state was originally known as the "Texas Unemployment Compensation Commission"; since June, 1947, it has been called "Texas Employment Commission." *Ibid.*, 6.

¹⁴ Texas, like most of the states that do not cover the small employing units, has a provision under which any employing unit subject to the federal Unemployment Tax Act is thereby made subject to state coverage.

¹⁵ The entire administrative costs of all state programs are met by grants from the national government, as provided in Title III of the Social Security Act.

it provides for partial pooling. The pooling of funds means that payments may be made to beneficiaries without regard to the condition of the accounts of their former employers.

Section 1602 (a) (1) of the federal Unemployment Tax Act allows employers to obtain the full 90 per cent offset against the national tax even though they pay less than that amount into the state fund, if such reduced rate is permitted "on the basis of his (or their) experience with respect to unemployment or other factors bearing a direct relation to unemployment risk during not less than the three consecutive years immediately preceding the computation date." This section provides, therefore, the basis upon which employer rates in the states may drop below the standard rate of 2.7 per cent. Were such a provision not included, any decrease in the employers' rate offered by a state would be exactly offset by the additional amount that the national government would collect. All of the states eventually adopted (the last in 1948) some kind of a rate variation ("experience-rating") plan. Texas first began to use such a technique in 1941, the earliest date at which its employers had achieved the required three years of experience. Earlier versions of its law had anticipated the use of the most widely used type (reserve-ratio) of rating system, but amendment had meanwhile been made to provide for a new plan, called "the benefit-wage ratio method." This method has been used by only a small number of the other states, five others besides Texas now employing it. Designed to be administratively simple and to serve as a method that would each year simply replace the benefits paid out in the preceding year, the Texas plan provided that each employer's account would be charged, at the time a former employee first drew benefits, with the wages paid this former employee during the latter's "base period." (An employee's base period is defined in Texas as the first four of the last five completed calendar quarters immediately preceding the beginning of the claimant's benefit year. In practice, it may be noted, the Texas plan did more than replace benefits paid out, largely because of the continuous rise in the amount of covered payrolls.)

The total of such charges for past period would, at the computation date, be related to the employer's payrolls of that period, and the resultant would in turn be multiplied by the ratio of total benefit payments in the state to total benefit wage-charges for employers (this ratio being known as the "state experience factor"); the product of these two ratios would then yield, approximately, the employer's individual tax rate for the year. Under this arrangement the critical item for the individual employer became, therefore, the charges made to his account, these constituting the factor in this complex of variables in which he would have the most immediate interest as far as his tax rate was concerned. This is a critical element in all rating formulas except the one based on payroll variations, which is now used in five states.

One of the major arguments earlier advanced in behalf of rate variation was that it would encourage employers to "stabilize" employment. Most of the arrangements actually adopted, however, did not attempt to measure employment stability as such; they have, rather, tended to encourage employers to press for individual, statutory, or administrative circumstances by which charges to their accounts could be minimized.

Under this rating system, employers with the appropriate experience could qualify, in Texas, for one of five rates below the standard, down to a minimum of 0.5 of 1 per cent.¹⁶ That they were able to do so in increasing degree as the years passed is revealed by the average rate-trend in the state, as shown in Table 2. The rate-trend for employers in other states using ex-

TABLE 2

Average Employer Tax Rates in Texas and All Experience-Rating States, 1941-52

Per Cent			Per Cent		
Year	Texas	All Experience-Rating States ¹	Year	Texas	All Experience-Rating States ¹
1941	1.60	2.17 (17)	1947	0.95	1.40 (50)
1942	1.56	1.81 (34)	1948	0.98	1.24 (51)
1943	1.42	1.78 (40)	1949	0.92	1.31 (51)
1944	1.24	1.59 (42)	1950	0.59	1.49 (51)
1945	0.92	1.56 (45)	1951	0.63	1.60 (51)
1946	0.89	1.37 (45)	1952	0.57	1.45 (51)

¹ Numbers in parentheses in these columns indicate the number of states in which experience-rating was in effect. In the other states the standard rate was paid by all employers. In each of the years 1949-52 one or more states (but no more than four in any one year) have, by the terms of their laws, assigned the standard rate to all employers, though they have not repealed their experience-rating provisions.

Source: *Social Security Bulletin, Labor Market and Employment Security, and Annual Report, 1952*, Texas Employment Commission.

perience-rating, also set forth in Table 2, was downward, but the reductions elsewhere were much less than those in Texas.¹⁷ By the end of the Second World War, the vast majority of eligible Texas employers were in the lowest rate bracket, and most of them remained there through 1949.¹⁸ The law was revised in 1949 to permit employers to obtain one of twenty-six reduced rates, varying at intervals of 0.1 of 1 per cent down to a minimum of 0.1 of

¹⁶ Rates above the standard 2.7 per cent were assessed in 1941 and 1942, but in 1943 the standard rate was made the maximum, no matter how poor the employer's experience may have been. The reduced rates permitted were 2.5, 2.0, 1.5, 1.0, and 0.5 per cent.

¹⁷ The differential advantage gained by Texas employers as compared with the rate (2.7 per cent) charged employers in states not using experience-rating was, of course, even greater.

¹⁸ The records of the Texas Employment Commission reveal that in 1946, out of 14,374 employers eligible for reduced rates, 14,108 (98 per cent) were assigned the lowest permitted rate, 0.5 of 1 per cent. The numbers and the percentage assigned such rates decreased through the next three years, but in 1949, 80.6 per cent of the eligible employers were assigned the minimum rate.

1 per cent. Under this arrangement, the average employer rate fell still further, and during 1950-52 the average employer rate in Texas was less than half what it was in all the state programs combined. During 1950 and 1951, only one state assessed an average rate below that prevailing in Texas; in 1952, only three states had lower average rates than did Texas. It should be pointed out, however, that in thirteen states it is now possible for at least some employers to obtain tax rates below those available in Texas, since rates of zero are authorized in those states.

This record suggests that Texas employers have had, by virtue of the prevailing combination of economic and statutory factors, relatively favorable treatment taxwise in the unemployment insurance system of this state.

Benefits.—While the national legislation has, as has been indicated, a substantial influence on the methods of revenue-raising incorporated in the state unemployment insurance programs, a central pattern of provisions on benefit payments is completely lacking. Under these circumstances, the states have created such a diverse and complex set of formulas for the determination of benefit rights that a survey of this scope must be limited to only a few of the major features of this phase of unemployment insurance. This diversity was not manifested in the early laws largely because, as in the Texas case, the model bills offered by the Social Security Board supplied a pattern which the states were under some compulsion to accept.¹⁹ The purpose, as far as benefits were concerned, in these early laws seemed generally to be that of paying unemployed workers about one-half their average weekly wage for, in the several states, from twelve to twenty weeks, up to a maximum set, with very few exceptions, at \$15. On these points, Texas provisions were the same as those most generally adopted, with the maximum duration of benefits in a year set at sixteen weeks, and with a \$15 maximum weekly payment.²⁰ During the Second World War, many states began to extend these maximums; by 1944, twenty-three states had a duration maximum in excess of sixteen weeks, and twenty-nine had a maximum weekly-benefit amount exceeding \$15, but Texas retained the maximums of the earlier period. Since 1944, Texas has on two occasions (1945 and 1949) made increases in these provisions and currently allows a maximum weekly payment of \$20 for a duration not to exceed twenty-four weeks. In the meantime, however, other states have also made changes, so that, in 1953, the Texas maximum benefit of \$20 is, along with that of four other states, the lowest in any program. At the other end of the scale, fifteen states now allow maximum weekly payments of \$30 or more. The Texas duration

¹⁹ Data on provisions of state laws as they existed prior to 1946 are drawn, unless otherwise noted, from *Issues in Social Security*.

²⁰ Until October 1, 1949, benefit payments in Texas were calculated and made on a bi-weekly rather than a weekly basis.

provision is more nearly in line with the practice of other states, for the maximum in any state is twenty-six weeks, and twenty-seven states have shorter maximum duration than does Texas. In eleven of these twenty-seven states, all qualified claimants may receive benefits for the same number of weeks; these states have, in other words, uniform potential duration. Texas is one of thirty-seven states that provide variable duration; qualified claimants in this state may be entitled to as little as five weeks of benefits. To put the present provisions on maximum amounts and duration in another way, the maximum payment in one year to an unemployed person in Texas is \$480; only eight states authorize lower annual maximums. On the other hand, fourteen states now authorize annual maximums that are at least 50 per cent greater (\$720 or more) than the Texas maximum.

With the Texas maximum weekly-benefit amount as low as it is, the very considerable rise in the average weekly wage in the state has meant that payments under the Texas program are largely flat-rate payments. For example, in 1952, out of nearly 78,000 claimants with sufficient wage credits to qualify for benefits, over 49,000, or approximately 63 per cent, qualified for the \$20 maximum weekly rate.²¹ That such a trend has a peculiar force in Texas is also indicated in data recently collected by the United States Bureau of Employment Security comparing the average weekly-benefit payments in the states during January-June, 1953, with the average weekly wage in 1952. The ratio for Texas was the lowest of the fifty-one unemployment insurance programs. In other words, the percentage of wage-loss offset by unemployment insurance payments was less in Texas than anywhere else in the country.²²

In the matter of determining the actual amount of the weekly benefit, within the upper and lower limits, most of the states use a formula that takes a fraction of the worker's high-quarter earnings in the base period. Texas is among these states, and it uses the smallest fraction ($1/26$) of any employed by this group. Subject to the limit imposed by the maximum weekly-benefit amount, this fraction yields 50 per cent of full-time wages only to those workers who had thirteen full weeks of employment in their base period. Most of the states use a larger fraction ($1/25$ and $1/20$ being most frequently found), which has the effect of reducing the impact on the worker's benefit amount of nonemployment during the base period high-

²¹ These figures have been taken from reports made by the Texas Employment Commission to the United States Bureau of Employment Security.

²² "Unemployment Insurance Activities January-June, 1953," *Labor Market and Employment Security*, October, 1953, p. 27. The average weekly payment in Texas was only 26.8 per cent of the average weekly wage. The compilation here presented reveals that though twenty-eight states had lower average weekly wages than Texas in the indicated period, only five awarded lower average weekly-benefit payments.

quarter. The use by Texas of such a small fraction is of relatively little consequence at the present time, given the prevailing full-employment conditions and the relatively low level of the maximum weekly benefit in the state. Its use does indicate, however, that here is another point on which benefit provisions in this state tend to be more restrictive than they are in most other states.

Eleven states have adopted and now use provisions under which the unemployed who are qualified for benefits may also receive allowances for dependents.²³ No such provision has ever been adopted in Texas.

The requirement of a waiting period before benefits are payable is quite general among the states. In the early laws, such periods were fixed at two weeks or more, but there are now only two states that require a two-week waiting period. Three states have eliminated its use, and the other states (Texas among them) have a one-week requirement. The Texas provision is unique, however, in that if there is as much as a thirty-five-day interruption in the claimant's unemployment during his benefit year, then an additional waiting period must be observed.²⁴

The material here presented suggests that, in the context of the state programs generally, the Texas program of unemployment insurance has done rather little over the past seventeen years to enlarge the extent of protection afforded to those eligible and qualified for benefit payments and that the present Texas program in this phase falls among the most limited in the fifty-one systems. The data on program financing (see Table 1) quite clearly indicate that threatened insolvency has not been a valid factor in this restriction of benefits. Revenues through the years have obviously been ample enough to permit enlargement of benefit terms and conditions.

Eligibility and Disqualifications.—There seems, unfortunately, to be a rather widespread impression that unemployment insurance payments can be drawn, more or less indefinitely, by any person who happens to be without a job. Such an impression is, of course, quite incorrect. A benefit claimant must, under all state programs, show some fairly considerable degree of attachment to the labor force through a recent record of earnings, period of work, or both, in covered employment. With an appropriate record, then, the claimant *may* be able to draw benefits limited in amount and duration to an extent suggested by the material set forth in the preceding section. Such a record alone is not enough, since the claimant must meet additional

²³ These allowances are in addition to the ordinary benefit payments, which are usually referred to as the "basic weekly benefit." Figures given above on benefit rates relate solely to the basic weekly benefit.

²⁴ The term "benefit year" usually applies to that year immediately following the filing of a valid claim for benefits. It is, of course, not to be interpreted as meaning that the claimant may receive benefits for the entire year.

tests, involving current as well as past factors in the circumstances of his unemployment. These additional tests are usually referred to as the "eligibility and disqualification" provisions. The national legislation provides very little guidance to the states in their setting of such provisions.

There are two main requirements, found in all state laws, concerning the claimant's eligibility—that he be able to work and that he be available for work; in other words, he must currently be in the labor market.²⁵ Substantial administrative discretion must obviously be allowed in the determination of such matters, and in the modern economy the factors involved are often complex indeed.²⁶ The Texas requirement that the claimant must be able to work shows no significant variation, as far as the law is concerned, from similar provisions in other states. Many of the states have made their availability-for-work provisions more complex than the ability-to-work requirements; the Texas requirement here seems well in conformity with those of the majority of states, but it is worth noting that twenty-four states have added that the claimant must be actively seeking work in order to remain eligible.

Workers who have the necessary employment record and meet the various eligibility conditions for unemployment insurance may, nevertheless, in all states, be denied benefits because of disqualifying circumstances involved in their unemployment. The chief reasons for disqualifications are voluntarily leaving work, discharge for misconduct, the refusal of suitable work, and unemployment brought about by a labor dispute. Other reasons for disqualifications frequently provided are receipt of certain types of income, such as wages in lieu of notice or dismissal payments, and fraudulent misrepresentation to obtain benefits. With the absence of national standards in this aspect, the states have created such a host of complex and diverse requirements that even their statutory nature can only be suggested, not summarized, and the administrative practices will have to be ignored completely in this survey. With respect to voluntary leaving, it is the universal practice to mitigate or eliminate the penalty therefor under certain conditions, usually those in which the claimant has "good cause" for quitting. Texas has, since 1943, joined several other states (currently, sixteen in number) that limit the reduction in the penalty to those cases where the good cause is connected with the worker's employment; the cause, no matter how forceful, cannot be considered unless it is so related. Good personal cause for voluntarily leaving work may serve, in Texas, to reduce the se-

²⁵ Ordinarily the claimant must meet certain additional requirements, such as filing claims, registering, and reporting periodically to an employment office.

²⁶ For a comprehensive study of the administration of one of the points here involved, see Ralph Altman, *Availability for Work: A Study in Unemployment Compensation* (Cambridge, Harvard University Press, 1950).

verity of the penalty levied against the claimant, but it cannot eliminate the penalty.

The length of the period of disqualification, for whatever cause, is in most states subject to administrative discretion, this being the case in Texas. The smaller proportion (usually about one-fourth of the states) that specify an exact period of disqualification ordinarily limit the penalty to postponement of benefit rights for eight weeks or less. After such a period, if the claimant is still unemployed and eligible, his benefit rights are unimpaired. In other states, however, including Texas, more severe penalties may be assessed. Texas is one of seventeen states where benefit rights may be reduced (or canceled) when a disqualification for one of these three major reasons is levied. The maximum assessment in this state is a twenty-four-week disqualification for voluntary quitting or discharge for misconduct; where this penalty is given, the claimant loses benefit rights for that benefit year, since this period is the maximum for which benefits can be drawn under the Texas law. Penalties for voluntary quitting and discharge for misconduct are levied, in Texas, only where these factors were involved in the worker's most recent employment; a few states apply penalties where such conditions were involved in some earlier employment. The maximum penalty for refusal of suitable work in Texas is only one-half that for voluntary quitting and misconduct; in most states, the ceiling on all such penalties is approximately the same.

In all states there is some provision for disqualification from benefits in unemployment that arises out of labor disputes. The Texas provision for such disqualifications conforms rather closely to the provisions in other states in that the disqualification endures during the stoppage of work due to the dispute and in that individuals are excluded from the disqualification if neither they nor any of the same grade or class of workers are participating in, directly interested in, or financing the dispute.

These limited and incomplete comments on the status of eligibility and disqualifications provisions in the Texas and other unemployment insurance programs obviously provide little basis upon which to rank the Texas program. It does appear safe to say that, in this aspect, the Texas requirements rank among the more restrictive, but no more precise comment would be justified. It should be pointed out that, in common with most other states, Texas has a set of arrangements that provides a rather close connection between eligibility and disqualification provisions on the one hand and employer tax rates on the other. Such a relationship characterizes every state program except those five in which employer rates are based on payroll variations. Employers in the great majority of states, including Texas, are concerned, taxwise, not with the volume of unemployment in any broad sense but rather with the volume of *compensable* unemployment as it appears in

the context of the state statutes and administrative practices. Highly restrictive eligibility and disqualification provisions and practices can bear fruit in the form of reduced tax rates on employers.

Fund Adequacy.—Although the combined state deposits in the unemployment trust fund held by the United States Treasury have recently reached an all-time peak, this fact alone does not mean that the unemployment insurance funds are more adequate than they have ever been.²⁷ Through the years there have been such changes in the labor force, the volume of taxable wages, benefit amount and duration maximums, and other relevant factors that the potential liabilities of the reserve accounts have been greatly enlarged. For example, at the end of 1946, total funds available were 10.8 per cent of 1946 taxable wages; at the end of 1952, such funds were 8.3 per cent of 1952 taxable wages. Moreover, the aggregate figures conceal wide variations in the status of the individual state accounts.²⁸ There is, as has already been suggested, such a wide variation in economic circumstances and statutory frameworks among the states that it is quite difficult to measure the relative adequacy of the state funds. Some approximation to this end can be made, however, by relating, on a state-by-state basis, fund-size to taxable wages, and then comparing these relatives with benefit cost-rates (benefit payments as a percentage of taxable wages) of past periods. Such an admittedly rough measure of fund adequacy is used from time to time by the Bureau of Employment Security, and one of its recent calculations reveals a very wide range in this feature. The study compared the status of reserve funds on June 30, 1952, to the 1946–51 average cost experience. For all programs combined, the reserves could have financed 6.1 years of benefit payments at the 1946–51 average rate, but the extremes ranged from 26.5 years to 1.1 years. Five states had funds large enough to pay benefits at this average rate for more than eighteen years; Texas was the fifth in this group. At the other extreme were five states whose funds were so small that they could have financed benefit payments for less than four years. The favorable position of the Texas fund in this ranking rests more upon the state's very favorable cost experience in the postwar period than upon the size of the fund itself. The Texas cost rate in this postwar period was lower than that of all other jurisdictions save one; in fund-size, rated in comparison with taxable wages, Texas ranked below the figure for the

²⁷ Combined balances of all state accounts in the unemployment trust fund at the end of August, 1953, amounted to \$8.8 billions.

²⁸ A state may draw upon only those funds that are credited to its account in the unemployment trust fund. The War Mobilization and Reconversion Act of 1944 created an account in the unemployment trust fund from which the states might borrow, but this provision, after being twice extended, lapsed at the end of 1951. A proposal to re-establish such an account passed the House of Representatives in the first session of the Eighty-third Congress and presumably will be considered by the Senate in the second session.

combined state funds.²⁹ Measures such as these, imperfect though they are, do point out rather clearly that, as compared with most other state funds, the Texas fund is quite adequate to meet reasonably foreseeable demands. They also suggest that benefit provisions in this state could be brought more closely in line with those prevailing in most other states without endangering the solvency of the Texas fund.

III

Concluding comments must be brief and limited in large part to a restatement of some fairly obvious generalizations already stated or suggested. Over the past seventeen years many revisions have been made in the unemployment insurance systems of Texas and the other states. The revisions made in Texas have largely been directed toward increasing the possibilities for employer rate-reduction; such efforts have been successful enough to allow the average rates in Texas to be reduced more rapidly and more drastically than they have been in the vast majority of other states. In this respect, Texas employers have obtained a considerable differential advantage over most employers elsewhere in the country. On the other hand, public policy in this state has shown little alacrity in enlarging the scope of unemployment insurance or in extending the amount of protection afforded to the unemployed. The coverage provisions remain substantially what they were in 1936, with the result that a considerable proportion of the state's workers either have no protection at all when they become unemployed or find their protection diminished by this lack of coverage. The unemployed who do qualify for benefits get protection that is characterized by maximum weekly payments substantially below those available in most other jurisdictions, though the duration of this protection extends fairly close to the maximum permitted in other state programs. There has also been a tendency in the Texas program to make the disqualification provisions more extensive; in this aspect, the Texas provisions cannot be judged the most severe, but there is certainly no reason to classify them among the more lenient. These various types of restrictions in the availability of benefits in the Texas system cannot be attributed to either actual or prospective fund shortages, for the record shows that there has never been any danger of substantial fund depletion in this state.³⁰ Experience in the postwar period suggests that the Texas fund ranks very high among the state funds on the point of adequacy.

²⁹ See "Unemployment Insurance Financial Developments through June 30, 1952," *Labor Market and Employment Security*, November, 1952, p. 55. The calculations made there indicate that the Texas fund could have paid benefits for 18.3 years; its average cost rate for the 1946-51 period was, along with that of Colorado, 0.4 of 1 per cent of taxable wages—the lowest prevailing in any of the states.

³⁰ Studies of the long-range aspects of unemployment insurance financing had been initiated in thirty-eight states and completed in twenty-five by August 1, 1953, according to a letter

The officials who formulate and recommend national policy in the economic sphere have long been concerned about various inadequacies that have appeared in our unemployment insurance systems. One of the matters about which they have been most concerned is the incompleteness of coverage and the relative inadequacy of benefit provisions in many of the state programs. Presidents Roosevelt and Truman, along with various other officials and agencies in their administration, frequently called attention to these aspects of unemployment insurance in the United States. President Eisenhower and Secretary of Labor Mitchell have also made recommendations for changes that would correct these conditions.⁸¹ The material presented in this paper rather clearly indicates that Texas must be counted among the states that have been most lax in moving toward elimination of these elements that have so often provided the basis for criticism of existing arrangements. The extremely high levels of employment that have prevailed in recent years, especially in Texas, have meant a minimum testing of our unemployment insurance arrangements; with the unemployed so few in number, gaps and deficiencies in programs for their protection have remained largely academic in nature. There can be, however, no assurance that such low levels of unemployment will continue to prevail. Should they rise substantially, it is quite likely that the features of the Texas program that differentiate it so markedly from what most other states have done will become more glaringly apparent.⁸²

from the Director of the United States Bureau of Employment Security to the author, dated August 10, 1953. Texas has never initiated such a study, most likely because of the apparent adequacy of the present state fund.

⁸¹ For instances of such recommendations by the latter two officials, see, respectively, *Economic Report of the President Transmitted to the Congress January 28, 1954*, pp. 96-99, and *New York Times*, February 24, 1954, p. 20.

⁸² Attention should be called to a decision handed down by the Texas Supreme Court after the preparation of the main body of this article, *Todd Shipyards Corp. v. Texas Employment Commission et al.*, Tex., 264 SW 2d 709, affirming in part and reversing in part 257 SW 2d 720, December 9, 1953; rehearing denied March 10, 1954. The full impact of this decision on the state's unemployment insurance program is too involved to explore at this point. The author feels, however, that the effects of the decision will not vitiate any of the conclusions reached in this article but rather will make more pronounced some of the trends revealed therein. The case dealt with certain charges made to the Todd Shipyards' account as a covered employer during the four years preceding July, 1952, and the court ruled that many of these charges should not have been made. As a result of the decision the Commission is currently engaged in the very substantial administrative task of rechecking charges made to the accounts of all covered employers as far back as 1945; considerable sums will doubtless be refunded to numerous employers after these new computations have been made, to the end that tax rates for the affected years will prove to have been lower than the records now show. The administrative techniques for handling current benefit claims have already become more complex as a result of this decision. It is quite possible that a heavier load of appeals from employers will also be forthcoming, inasmuch as all base-period employers, rather than only the most recent employer, will have the opportunity to challenge payment to an unemployment insurance claimant.

Liberal Reform-Legislation in England, 1906-14: An Interpretation

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THE YEARS from 1906 to 1914 in England are generally recognized as an important period in which the Liberal government of England passed a body of legislation that ranks in importance with that passed by the Whig government between 1832-35 or by the Labor government between 1945-51. The reform legislation of 1906-14 may be studied from a number of points of view. One may place himself in the period under consideration and study the passage of the legislation itself and the reasons given for passing it; he may go back to the last decades of the nineteenth century and see the conditions that made reform ultimately necessary or inevitable; or he may place himself in England in the period from 1945 to 1951 and make contrasts between the work of the Labor government and that of the Liberal government in the earlier years. One may also relate Liberal reform-legislation to the more important theories of society and government in order to achieve a more satisfactory interpretation.

It would be a mistake to assume that one can get a proper understanding of the legislation under discussion by studying only the period 1906-14. The important laws passed by the Liberal government before 1914 dealt with problems that had been fully discussed before, and preceding governments had made some attempts to deal with them. In the last two decades of the nineteenth century there was a growing dissatisfaction in England with the efficacy of the system of *laissez faire* in dealing with fundamental economic and social problems. The rise of Marxian and Fabian socialism, the growing militancy of the labor movement, the studies by Charles Booth and Seebohm Rowntree of conditions in London and York, the investigations by government committees and commissions, countless articles in newspapers and periodicals—all of these testify to the deep concern of many people for social and economic problems.

An excellent example of this concern is that of the movement for old-age pensions. Starting from humble beginnings in the late 1870's as a program

for both sickness insurance and old-age pensions, it was investigated by a select committee in the 1880's, was furthered by the studies of Booth and others, was taken up by Joseph Chamberlain and promoted in one form or another by friendly societies, and was finally investigated by a number of commissions and committees, with the result that by the end of the century the government had in hand more than enough information upon which it might pass a satisfactory law to provide pensions for the aged.¹ Why was such legislation not passed at the time? Why were the legislative achievements of both parties so meager in the last decades of the century? Despite the broadening of the franchise in 1867 and 1884, the members of the House of Commons were still largely of upper- and middle-class origin, looked at problems from the point of view of their class, and were pretty generally imbued with the prevailing philosophy of *laissez faire*. The concern of the Liberal party for the Irish problem and the split that resulted made the party incapable of pushing forward a program of reform. Among the members of the Conservative party were a considerable number who desired a program of reform in the spirit of Tory democracy, and even the cautious Salisbury agreed that the government should sponsor legislation for "social amelioration." It should be said, in addition, that problems other than social and economic reform captured and held the attention of Liberal and Conservative governments toward the end of the century. For the Liberals, it was home rule for Ireland; for the Conservatives, it was South Africa in particular and imperialism in general. These preferences of the major parties for problems of a political, constitutional, or imperialistic nature created a sense of frustration and resentment among people whose attention was focused on the domestic scene. They continued to deal with those situations in which they were vitally concerned and refused to cease propaganda and agitation even during the period of the Boer War.

The situation was changed somewhat by the formal introduction of the program for tariff reform. Joseph Chamberlain's proposals were meant, among other things, to serve as a means of improving the lot of the poor. Of what good would other reform legislation be if the English workman continued to produce in an unprotected market, with its inevitable crises and unemployment? And how could reform legislation be financed without the income from the tariffs to be imposed? To the tariff reformer, social legislation was incompatible with a full-fledged system of economic freedom whose emphasis was on competing individuals rather than on the concern of government for its citizens. The tariff program of Chamberlain split the Conservative party wide open and made it impossible for the government to pass any important social legislation. The costs of the Boer War

¹ Paul Felix Aschrott, *The English Poor Law System, Past and Present* (2d ed., London, 1902), *passim*.

were also a factor acting in deterrence of government expenditures that did not seem to be immediately essential. Social reform was inseparable from the state of the budget. The result of this confusion in party and government was that the statute book between 1902-05 was especially bare of legislation on social and economic problems. There was an annual crop of private members' bills for old-age pensions, and the government in 1905 passed a weak statute to deal with unemployment. By the spring of 1905 it seemed evident that the days of the Conservative government were numbered. Whatever it might have done under other circumstances, it had failed to pass significant social legislation since the Boer War, and it had convinced great numbers of voters that it never would. Whatever the achievements of the Liberal party in the past in similar matters, it came to be looked upon as the party that would, if given power, meet the needs of those who had been neglected in the past.

The Liberal party as such was not dedicated to economic and social reform in 1906. Its historical principles were not harmonious with the idea of governmental intervention on behalf of those who had not fared well in the rigors of competition. It would have to go through a certain soul-searching before the doctrines of individualism could be adapted in such a way as either to countenance or to demand an active reform-program. The manifesto of the party in the election of January, 1906, showed that its primary interests were not in the field of reform legislation. The party took a strong stand for the continuance of free trade and cheap food, for economy in expenditure and for the reduction of debt, and for ending the program for introducing coolie labor into South Africa, etc. In view of the dissatisfaction of labor over the Taff Vale decision, the party promised to pass legislation to restore to trade-unions the rights that they had possessed before 1901. As a means of holding the highly important Nonconformist vote, a promise was made to amend the Balfour Education Act of 1902 and to bring in a new licensing act to curb the power of the brewing and liquor interests. Not a word was said about unemployment, the incidence of ill-health and the means of reducing it, or about taxing the rich more heavily in order to finance social legislation. We could expect, therefore, that the Liberal government would perform its tasks in harmony with the principles which it still officially accepted, except in so far as it was necessary to modify or adjust them to the needs of party harmony and the demands of those farther to the "left" who could make their wishes effective.²

² For speeches of Liberal candidates in the election, see the *Times* (London), January, 1906, *passim*. A cross section of opinion among the leaders of the party may be found in *The Liberal View—A Series of Articles on Current Politics by Members of the '80 Club*. (Preface by Rt. Hon. Earl Spencer [London, P. S. King and Son, 1904]), in which "social reform" is allotted 5 pages in a total of 161. More interest in social problems is shown in Herbert Samuel, *Liberalism—An Attempt to State the Principles and Proposals of Contemporary*

The reference to party harmony is very important. As Cecil Chesterton pointed out,⁸ the Gladstonian spirit was still strong in the Liberal party, a spirit that considered economic and social problems of less significance than purely political ones, except, of course, for orthodox policies of government finance. In addition to the old-fashioned Liberals there were the Radicals, who inherited the ideas that Joseph Chamberlain had promoted before his break from the party and who wanted the government to embark on a courageous program to deal with the ills whose existence was admitted on all sides. If the Liberal party and government were to continue in power, they would have to take proper account of both kinds of ideas and introduce legislation that would satisfy both groups.

To the left of both the older Liberals and the Radicals were the labor and socialistic groups, which had taken on some elements of unity in the formation of the Labor Representation Committee in 1899-1900, or had expressed their power through the election of Lib-Lab members to the House of Commons. These members in the Parliament elected in 1906 were a constant reminder to the Liberal leaders that they must never forget the demands of labor for remedial legislation. A day might come when the regular Liberal majority would be whittled down by by-elections or even by a regular election, and it would thus be poor policy to neglect the demands of Labor and Lib-Lab members. A close eye would have to be kept on the activities of the Conservatives, with their capacity to pass reform legislation when necessary, and on those Conservatives in particular who would like to keep alive the principles of Tory democracy. The Liberal party was in fact the inheritor of the popular demands for reform legislation, and it could reasonably expect Conservative agreement to at least a recognition of the necessity of legislation, though not to the specific provisions of bills that might be introduced. To fail eventually to pass legislation on the more obvious subjects would be to throw away the unprecedented opportunity given to it in the election of 1906. The composite nature of the Liberal party made it impossible for the government to proceed rapidly. The relative speed or slowness with which it set itself to its tasks was the result of the forces existing within Parliament, the party, and in the electorate generally.

With these considerations in mind, we may pass to a review of the more important legislation passed by the Liberals. As we look at the records of the period, we are struck by the deliberateness shown by the government in approaching the tasks that it faced. There was no hasty rushing to pass bills demanded by interested groups. The more cautious elements in the government showed an understandable hesitancy, a desire to pass only those bills

Liberalism in England (London, Grant Richards, 1902), and Brougham Villiers, *The Opportunity of Liberalism* (London, T. Fisher Unwin, 1904).

⁸ *Gladstonian Ghosts* (London, 1905), *passim*.

that were admittedly required by the existing situation or that were demanded by so large a body of voters as to make refusal impossible.

In the session of 1906 the most important bills were those dealing with trade-union law, education, accident insurance, and the provision of meals for school children. The trade-disputes bill that was finally passed strongly reflected the wishes of the Labor interest, and the House of Lords discreetly gave its consent, reserving its opposition for the education bill introduced to satisfy the Nonconformist dislike of the Balfour Education Act of 1902. So serious were the amendments passed by the House of Lords that the government decided to proceed no further with it.⁴ The bill dealing with accident insurance was an extension of the contents of the act that had been passed by the Conservative government in 1897. That concerned with the provision of meals to school children was considered by the government to be a reasonable means whereby poverty-stricken children might receive larger benefits from their education.⁵ In 1908 an attempt was made to pass a licensing bill to bring about a gradual reduction in the number of public houses and to permit local option for the grant of new licenses, but it was killed on second reading in the House of Lords. In 1907 and 1908 the government introduced Scottish land bills, but here again it was stopped in its tracks by the opposition.⁶ The Liberal government was unable for budgetary reasons to introduce an old-age pensions bill until 1908. Inasmuch as both of the major parties had in previous years admitted that a pension system should be created, there was no real objection on principle when the Liberal bill was introduced, except for considerable opposition to its non-contributory provisions. It was, therefore, passed by what amounted to a nonpartisan vote. But if it was proper to pass a bill on behalf of the aged poor, why should it not be just as proper to give assistance to younger persons who were unable to deal with unemployment and illness?⁷ Granted the propriety of such legislation, it would be politically necessary to find the extra money within the limits of the system of free trade.

Lloyd George's budget of 1909 was an attempt to do just this, and its introduction was accompanied by promises of legislation to be brought in at a later time to provide for moderate aid to those who were sick or unemployed. In the same year there were put on the statute book a law for the regulation of sweated industry, one for the creation of employment exchanges, and another to make at least a beginning with public housing and town planning. None of these were considered controversial by the rank

⁴ *Parl. Deb.* (4th Ser., 1906), *passim*.

⁵ Carlton Hayes, *British Social Politics* (Boston, Ginn & Co., 1913), 20-72, 107-22.

⁶ *Parl. Papers*, 1907, Vol. I (*Bills Public*), and 1908, Vol. III (*Bills Public*).

⁷ *Parl. Deb.* (4th Ser., 1908). See in particular the remarks of Arthur James Balfour, *Parl. Deb.* (4th Ser.), Vol. CLXXXIX, June 16, 1908, cols. 813-22.

and file of the two major parties, but the bill for setting up employment exchanges was disliked by some members of the Labor party because it failed to attack the real problem, which was unemployment itself.

The English public looked forward with great interest to the introduction of the budget of 1909 but had no dependable advance information as to its contents. The provisions which caused the greatest furor were those which in the long run proved to be the poorest money-raisers, namely, those for taxing existing land values and the unearned increment from land as revealed by the sale price. Relatively little attention was given to the future possibilities of the graduated tax on incomes. Considerable opposition arose in Ireland as to the taxes to be levied on distilleries, and in England over the higher rates to be levied on licenses for public houses. The loud opposition to the new land taxes revealed a profound fear that the budget would bring about the ruin of large landowners through an unfair form of taxation, despite the fact that the taxes envisioned were relatively moderate. But a tax that was contrary to the interest of the great landowners could be increased at each succeeding session of Parliament, and land could be used as the source of funds for the promotion of legislation for the benefit of the workers in industry. Plaintive pictures were drawn of owners of English estates who would have to discharge faithful servants and footmen whom they would no longer be able to employ if the budget were passed into law. Lloyd George enraged the opponents of his budget by poking fun at landlords and members of the titled nobility in his Limehouse speech in the summer of 1909, perhaps as a deliberate means of inducing the House of Lords later to turn it down. After extensive debate, the House of Commons passed the budget resolutions and the finance bill based upon them and thus sent the challenge to the House of Lords, where Conservative leaders decided that the time had come to call a halt to advanced Liberal legislation. The refusal of the Lords to accept the principles of the budget brought about a dissolution of Parliament, and an election followed in January, 1910. Although the results of the election were not decisive, the Liberal government still had the nominal support of the Labor members and could expect the Irish Nationalists to continue their support if it were made clear that a measure would be introduced to reduce the powers of the House of Lords. Under the circumstances, the House of Lords knew that it must give in, and a finance act was passed that put into operation the principles of the budget of 1909.⁸

The budget crisis had thus been dealt with, but a new one loomed—that over the proposed reduction of the powers of the House of Lords. The cries of the preceding year about the impoverishment of landowners and the in-

⁸ *Parl. Deb.* (1909, and 5th Ser., 1910), *passim*; 10 Edw. VII, c. 8 (Finance Act, 1909–10).

introduction of social measures at the expense of the rich were heard less often; now the complaint was that the Liberal government was about to subvert the existing constitution at the express command of the Irish Nationalists. It finally required the threat of a royal creation of a large number of peers to force through the passage of the Parliament bill and even then with only a few votes to spare. Thus in 1911 the House of Lords was made incapable of holding up financial legislation or of permanently preventing the passage of other bills. The English constitution was thus made more democratic in the sense that laws would be based more directly on the will of the voters as expressed in Parliamentary elections.⁹

The Liberal government believed that it would be quite proper, during the period in which the Parliament bill was under discussion, to introduce into the House of Commons a measure to provide health and unemployment insurance, inasmuch as such legislation would be considered as distinctly nonpartisan and was probably politically inevitable in the long run. A very complex insurance bill was thus introduced and received an initial blessing in principle from Conservatives and loud praise from Liberals. Despite the unseemly quarrel that developed over the health insurance provisions of the bill, both houses toward the end of the year passed what is known as the "National Insurance Act, 1911," which laid the foundations of all future legislation on the subject up to 1946. There was little objection to the provisions for unemployment insurance, but a quarrel that broke out with the British Medical Association over the amounts to be received by doctors under the system made it impossible to put health insurance into operation until January, 1913.¹⁰

How did the Labor members of Parliament react to this body of Liberal reform-legislation? Did they co-operate with the government in its passage and were they grateful to the Liberals for the work they had done? As each bill was presented to Parliament, the Labor members, acting collectively as the Parliamentary Labor party, considered its provisions and decided on the attitude that they would take toward it. A common attitude was that the bill was good as far as it went but that it did not go far enough—which meant in practice that they would support it as a token payment on future legislation. They supported the Old-Age Pensions Bill of 1908 because of the demonstrated need for it and because of its noncontributory provisions. They supported the bill for the creation of employment exchanges but were agreed that it did not get at the basic problem, and they supported the budget of 1909 because of its tax provisions. The Parliamentary Labor party gave its official support to the National Insurance Bill of 1911 but was unable

⁹ 1 & 2 Geo. V, c. 13 (Parliament Act, 1911).

¹⁰ Ronald V. Sires, "Early Health Insurance in Great Britain," *Current History* (May, 1952), XXII, 290-95.

to enforce its decision on all members, a minority objecting to the system of contributions from workers, as well as to the small benefits provided.

The rank and file of labor was not greatly impressed with the work of the Liberal government in economic and social legislation. Between 1906-10, prices rose more rapidly than money wages, and the attitudes of laborers were determined by the effective purchasing power of their pay packets. The conviction developed that the political approach to problems was not producing adequate results, that the Labor members were being taken in by the more suave members of the two major parties, and that their ardor for reform was being steadily dampened. The result of this dissatisfaction was that the last four years of Liberal rule before 1914 were darkened by a large number of serious strikes and even by a moderate development of syndicalist ideas among laborers.¹¹ All of this put Liberal leadership to a severe test and revealed that it was not at its best when dealing with labor unrest. Just before the beginning of war in 1914, England was faced by a very serious labor situation, and we shall never know whether the Liberal government would have been able to meet it successfully under other circumstances.

The statute book from 1912 to 1914 contains relatively few important acts in the field of social and economic problems. A minimum-wage law for coal miners was passed as an answer to the coal strike of 1912, and provision was made in 1913 for political contributions by trade-unionists in order to negative the Osborne Judgment of 1909. Lloyd George returned for a short time in 1913 to his old interest in land reform, and Winston Churchill had already in 1911 gone to the Admiralty to make the Navy a more efficient instrument in the darkening European situation. Outside of the numerous strikes in these years, the principal concerns of the Liberals were more political and international than social and economic. There was a return to the old promises of disestablishment of the Church in Wales; the Irish situation came close to actual civil war; and the suffragettes were a constant drain on the energies of the government. The Liberal impetus toward social reform was clearly spent, and fresh ideas did not seem to be available.

This account of the work of the Liberal party in economic and social legislation has shown government as reflecting and registering public and group demands for reform. Serious internal problems had been studied again and again between 1880 and 1906 by individuals, by private organizations,

¹¹ For explanations of the dissatisfaction of labor, see "The Claims of Labour," *Nation* (London), August 12, 1911, pp. 698-99; "Unrest and Its Cure," *ibid.*, August 19, 1911, pp. 729-31; *The Causes of the Labour Unrest and the Remedies for It* (draft of a report by William Cunningham, D.D., F.B.A. [London, 1912]); B. Seebohm Rowntree, "The Industrial Unrest," *Contemporary Review* (October, 1911), C, 453-65.

and by government agencies. The desire for legislation along certain lines had developed among groups of varying size, and there was in addition a fairly general feeling that much in general was wrong and that government should embark on a more active legislative program. The public insistence on reform legislation was inherited by the Liberal party and government and was received by the radical elements in the party with great joy, and by the conservative wing with mixed feelings, compounded of both their sense of justice and their fear of rash policies and legislation. The situation provided the possibility of joyous work for the Radicals and the necessity of dealing with unpleasant situations for the classic and conservative Liberals. Reform legislation during these years was not the result of plans formally laid before 1906 but was rather the work of a potentially divided party that met situations in a tentative and hesitating manner, with an eye cocked now on the increasing power of labor and now on the capacity of the Conservative party to pass reform legislation in case of Liberal failure to take decisive action. It was this situation that explains the patchwork of Liberal reform-legislation. The Liberal government, because of its deep roots in the past and its fears of a future that it could not clearly foresee, passed laws that amounted to a humanitarian and untheoretical shoring up of the system of individualism. These policies revealed the lack of a clear-cut view of society and of an understanding of the limits to which it might go without being charged with the taint of socialism.

But these considerations should not prevent our recognizing the great importance of the legislation which it did pass. The institution of old-age pensions and of health and unemployment insurance obviously lightened the burdens of the poor and of workers suffering from the insecurities of economic life; jobs were found for large numbers of workers under the law establishing employment agencies; and some suffering was forestalled by the passage of the act for the creation of wage boards in sweated industry. From the point of view of future development, it may be said that Liberal reform-measures laid the foundations of all future legislation on the same subjects down to 1946. Later laws on old-age pensions, health and unemployment insurance, and on progressive income-taxation for social purposes were additions to, or refinements of, the legislation passed between 1906-14. The Liberal party and government had been forced by existing conditions and by public demands to adopt in actual practice the doctrine that government was more than an umpire among competing individuals and groups and that it must become an active agent in social improvement. This was not socialism but a recognition of the social and even humanitarian functions of government. Once the recognition had been embodied in a large body of legislation, there could be no turning back to older principles and policies.

An Analysis of Industrial Pension Plans

A. S. ARNOLD *and* J. C. RAWLS

PRAIRIE VIEW AGRICULTURAL AND MECHANICAL COLLEGE

FOR MANY YEARS industrial corporations have taken care of their aged employees by various methods. It has only been during the past decade, however, that a growing interest has been manifested in formal employee pension plans. The movement toward additional pension and welfare plans must be looked upon as a natural development in the economic and social evolution of this highly industrialized country.

The surge of interest in formal pension plans is attributable to several long-range factors. First, pressure for the installation of retirement plans developed partially from the increase in the number of old persons in the United States—from five million over sixty-five in 1920 to over eleven million at the present time. A second long-range factor was the adoption of the Social Security Act of 1935, with its subsequent revisions. This act has largely been the framework around which more recent plans have been structured.

It is plausible to assume that a third influential factor has been the entrance into the labor market of many younger employees who are placing greater value on protection and security in old age. The ruling of the NLRB that pension and welfare plans are subject to negotiation constituted a fourth long-range factor. Many other forces within our economy have combined to bring the question of pensions to the forefront of our industrial-relations picture. Probably one of the most significant of these was the Revenue Act of 1942.

The excess profits tax on corporations during the Second World War presented an opportunity for employers to spend large amounts for pension purposes without having the expenditure show in the operating statement. Other forces centered around the "freezing" of wages during the Second World War, coupled with the desire of companies to improve their competitive positions within the labor market.

Since the surge of interest in the pension movement began, there has been a great diversity of opinion as to how plans ought to be established. This diversity of opinion suggested the need for reliable information concerning

practices of a representative group of companies in an effort to ascertain common elements in pension planning and structure.

Purpose of the Study

This article is an attempt to present factual information about a group of industrial pension plans rather than to make a critical analysis. Such information may be useful for a variety of purposes: (1) Comparisons will show various points of similarity and dissimilarity that are worth noting. These will indicate common provisions in existing plans; (2) A periodic review of pension plans will indicate current trends. Coverage, eligibility, benefits, and the administration of plans are of vital importance. Since employees have definite interests in these, they make attempts to have them modified in their own interests; (3) Studies in pension plans provide basic data which can be used as a review and which are of interest to companies having no plans in operation. Companies without plans may discover that provisions for retirement might improve company-worker relations. It is also possible that retirement plans will aid management in maintaining employees and in increasing their efficiency and loyalty.

Sample

An integral segment of American industry is represented by one hundred corporations. These corporations form the framework around which American industry is largely structured. The one hundred largest United States corporations, based upon total revenue, were reported in the *Monthly Letter on Economic Conditions*.¹ The list included seventy-seven in manufacturing, fifteen in retail and wholesale trade, six railroads, and two public utility systems. The *Monthly Letter* reported that the one hundred largest companies employ an average of 58,600 men and women and have an average investment per employee of approximately \$15,000. An examination of virtually every economic area, e.g., total employment, total corporate wealth, etc., attests to the importance of these companies.

On the basis of their relative position within American industry, the seventy-seven manufacturing corporations, of the listed one hundred largest corporations, were selected for investigation. Accordingly, seventy-seven questionnaires were mailed to the manufacturing corporations. The anticipation and desire for a good return became a reality when fifty responses were received. It must be stated that two responding corporations reported that no pension plans have been established. Also, one reported that a plan is in operation, but that company did not complete the questionnaire. The resulting sample, therefore, consists of forty-seven companies, covering in

¹ *Government Finance* (National City Bank of New York) for July, 1933.

excess of 1,275,215 employees. The number and the diversity of responding companies justify faith in the representativeness of the sample. Hence, the figures presented in the tables in this paper are based on the responses of these forty-seven companies.

Analysis of Factual Information

A review of the dates of inception of plans suggests that executives of corporations have long appreciated the problem faced by employees in attempting to provide for personal security in old age. The leadership role assumed by some of the companies studied in making provisions for the retirement of superannuated employees on annuities is manifested by the fact that thirteen were installed before 1935, the year in which the Social Security Act became an influential force, and twenty-two were installed prior to 1942, when the Revenue Act of that year facilitated the adoption of plans. An article entitled "Pensions: Not If But How"² revealed that 85 per cent

TABLE 1
DATES OF INCEPTION OF PENSION PLANS

Years	Number of Plans
1904-35	13
1936-42	7
1943-52	26
Various dates	1
Total	47

of plans then in existence were started since 1942 and that less than 1 per cent antedate 1930. Credit should be given to the companies that did not ignore the problem of employee retirement prior to 1942, as was true in the case of 85 per cent of American corporations generally. Twenty-seven plans were begun during 1942 and subsequent years by the companies covered in this study.

That the companies studied recognize a value consistent with the cost of formal pension plans is suggested by the fact that 43 per cent were in operation before the coming of the pension "boom" beginning after 1942. Where informal arrangements existed at the outset of some of the older plans, they have, without exception, been placed on a sound actuarial basis.

² *Fortune*, November 3, 1949.

Kinds of Plans

Every kind of pension plan is a matter of personnel policy followed in connection with employees for the provision of a pension after retirement. Initially, pensions were paid at the discretion of management on an informal, unguaranteed basis. Plans of this type are called "informal" or "discretionary." Gradually, there emerged the realization on the part of employers that individual treatment in granting retirement benefits was impracticable. There was recognition that more definite plans were needed, with absolute assurance given that pensions would be paid. As a result, definite rules were drawn up governing the conditions under which a retirement allowance would be granted and stipulating its amount. A scheme of this type is referred to as "formal." Without exception, the responding companies reported that plans have been written and promulgated to employees; this is a formal basis of organization.

The selection of a type of financing that an employer can adopt is frequently the most important decision that he will be called upon to make in the establishment of a pension plan. Two general methods are used: (1) A nonfunded plan, which is one set up on a pay-as-you-go basis. No funds whatever are set aside, the company simply paying pensions to its retired employees out of cash reserves. An employer who adopts this type of plan does not commit himself to set aside an annual contribution irrevocably for the benefit of his employees. This plan provides no protection against sudden pension cuts or total loss of benefits to employees. (2) A fully funded plan, which is one in which a large enough fund is accumulated to cover both past and future service liability, including the pension benefit to be paid each year. Retirement is provided on a definite benefit basis rather than on a money purchase one.

Funded plans fall into several different categories: (a) an *insured plan*, in which the company turns the liabilities over to an insurance company, commits itself to pay the requisite premiums each year, and lets the insurance company gradually purchase deferred group annuities to be paid to employees as they retire; (b) a *deposit-administration plan*, also handled by insurance companies, in which the annual premiums paid by the company are accumulated with interest in a fund until the employee retires, at which time the insurance company draws out enough to buy a paid-up annuity at the going rate; (c) a *trusteed plan*, in which the necessary funds are annually deposited with a trustee, which may be a bank, an individual, or group chosen by the company to handle the fund. Either pension benefits are paid out directly by the trustees as they fall due or a paid-up annuity is purchased from an insurance company at the time of retirement. This

type of plan allows a company to vary the size of its annual contributions as profits rise and fall. The forty-seven pension plans investigated show the following structure: fully funded, 21; insured, 14; trustee, 9; neither, 3.

Employee contributions are optional under any of the methods of financing. Of the forty-seven plans, twenty-nine have been established on a non-contributory basis, sixteen on a contributory basis, and two on a composite basis.

TABLE 2

METHODS OF FINANCING AS RELATED TO DATES OF INCEPTION

Years	Number of Contributory Plans	Number of Noncontributory Plans	Number of Composite Plans
Before 1905	----	1	----
1905-09	----	2	----
1910-14	2	----	----
1915-19	----	2	----
1920-24	----	1	----
1925-29	1	3	----
1930-34	1	----	----
1935-39	3	1	----
1940-44	5	4	2
1945-49	1	3	----
Since 1949	2	11	----
Various dates	1	----	----
No date given	----	1	----
Total	16	29	2

The findings show that the three plans in operation during the period 1904-09 were financed on a noncontributory basis. From 1910-29, six of the nine plans activated adopted noncontributory financing. Between 1930-39, five new plans were started, four of which were contributory. After 1939, nineteen of the thirty new plans were noncontributory, nine contributory, and two composite. It is immediately obvious that except during the 1930-39 period, the companies have shown a definite preference for non-contributory financing. The Social Security Act was undoubtedly the factor influencing contributory financing between 1935-39.

The question of whether employee contributions should be required has been a controversial one. It has been asserted that contributory plans prevent employees from frowning on the idea as being associated with a dole system or a paternalistic system. Contributions from employees also make for more liberal benefits than if the entire burden is assumed by the employer. Even so, the figures in Table 2 show that the popularity of contributory plans has never been too high among the forty-seven companies. In the period

1940-44, the contributory plan was instituted more frequently than at any other time. Three were instituted in 1941, and one each in 1940 and 1944. There was also one each for 1937, 1938, and 1939. A study³ revealed that, generally, the contributory plan has been more popular than the noncontributory one. This is contrary to the practices of the companies studied.

Noncontributory plans leave more funds in the employees' pay checks. Dawson's study⁴ indicates that recent trends show employers have somewhat feared contributory plans because of possible adverse employee reactions and that the contributions would have an almost negligible effect in relationship to costs and taxes. Hence, generally, there has been a turn toward noncontributory financing. The results of the present study show that the noncontributory plan has always been the more popular, and the recent years show, as did Dawson's study, that the noncontributory plan is continuing to gain popularity.

TABLE 3

ANALYSIS OF THE TYPES OF FINANCING

Type of Financing	Funded	Insured	Trusteed	Neither
Contributory	5	8	3	..
Noncontributory	15	5	6	3
Composite	1	1	..	..

An interesting relationship was found between the structure of plans. There is positive evidence that where contributions are made by employees, a preference exists for insured schemes. On the other hand, there is a demonstrated preference for funded arrangements under noncontributory financing. The trust-fund method is less prevalent under contributory financing than insured and funded methods. On the other hand, it is subordinate to funded plans but a bit more widely used than insured plans where financing is on a noncontributory basis.

The amount or rate of contribution varies among different companies and plans. The variation ranges from 1.4 per cent on the first \$2,000 of earnings to 6 per cent on earnings over \$3,000. The amount of employer contributions as a percentage of the payroll was found to vary from 2.4 per cent to 7 per cent on the same limits of earnings. It will be observed that the employer's contributions tend to be slightly higher than those of employees.

Fourteen of the sixteen companies having contributory plans provide workers with a legal right to their contributions. Thirteen provide employees with a right to contributions plus interest. A positive correlation was found

³ C. Preston Dawson, "Shall Employees Contribute?" *Journal of Commerce* (May 29, 1946), CCVIII, 19.

⁴ *Ibid.*

between the size of contributions and benefits provided under respective plans.

Eligibility Requirements

The requirements covering eligibility are usually based upon length of service, age, nature of employment, amount of compensation, and sex.

The primary aim of a length-of-service and an age requirement is to eliminate personnel turnover as much as possible. Consequently, policy in this regard would be reflected in a variation of these requirements between companies. The analysis showed that plans have a minimum service requirement varying from six months to fifteen years, the former being the most prevalent. Three companies indicated that employees have no eligibility requirements with which to conform. Where an age requirement was specified, the requirements varied from a minimum of 21 to a maximum of not over 64½ years. Within this range, typical requirements were found to be (1) under 30, (2) under 40, (3) under 50, (4) under 60, (5) under 64½. Workers entering employment at an age over the requirement for the specific plan are therefore not covered. One company requires a satisfactory medical examination as a part of the age requirement.

It is not always feasible to include all types of employees in a pension plan. Initially, pensions were provided only for workers below the rank of foreman. Forty companies, however, cover workers whose nature of employment involves the rank of foreman and thirty-nine cover workers above that rank. Two companies exclude foreman and five exclude persons above the rank of foreman. Five responses were not received concerning coverage of foreman and three were not received concerning employees above the rank of foreman. There is evidence of a trend toward coverage of all regular employees, regardless of the nature of their employment.

In some cases a minimum compensation earned by the worker is required to satisfy conditions of eligibility. Those listing a compensation requirement indicated a range of required income, with a minimum of \$3,000 per year. This feature is usually included in order to make allowance for expected Social Security benefits. The majority of the companies studied do not fix a minimum compensation requirement. None of the responding companies listed a sex requirement for eligibility.

A probationary period is designed to eliminate casual employees. Thirty companies do not specify that a worker complete a probationary period of service before becoming eligible, whereas seventeen require such a period. Where a probationary period is mandatory the period is six months in 11 per cent of the cases. In the other 89 per cent, the period ranges from one to five years.

Twenty-five companies revealed that employees in certain categories are

not eligible for participation. Temporary employees constitute the most common category of excluded workers. Other categories consist of directors, nonregular employees, and those working outside the United States; those under 21; nonhourly employees; employees covered under special plans; employees under 25 and over 64½; supervisors and up; employees who join the company after age 40; nonbargaining-unit employees. Two companies plan to include the now excluded workers in the future, whereas eighteen are not contemplating such action.

Membership and Retirement

Membership in a plan may be required of all eligible persons, or it may be left to the discretion of the employee. The basis of membership of the responding companies shows the following distribution: voluntary, 17; compulsory, 4; automatic, 15; no company response, 11. There is evidence of a current policy of permitting the employee to join or refrain from joining a plan at his discretion. Compulsory coverage is clearly the exceptional policy.

Age sixty-five, generally designated as the compulsory retirement age, coincides with the retirement age under the Social Security Act. One company listed no compulsory retirement age and a second indicated that the type of employment is the determining factor. Age sixty has been adopted by only one company as its retirement age. The analysis revealed a definite preference for sixty-five as the normal retirement age. There is, however, evidence of a trend toward granting pensions prior to normal retirement age. One company provides retirement benefits regardless of the worker's age after he has twenty-five years of service. A worker may retire at age fifty under the plans of four companies provided that he has a given number of years of service, varying from eleven to fifteen years. Similar provisions are made for retirement at ages fifty-five and sixty. Provisions are also found for disability-retirement benefits prior to normal retirement age provided that the employee has earned a given number of years of credited service.

Nine companies set a lower retirement age for women than for men. Where this is true, the age for women has been set at a lower limit of five years. Five companies list sixty as the normal retirement age for women, and one lists fifty-five. One response reveals that women may retire at age fifty-five provided that they have twenty-five years of service, or at age fifty with thirty years of service.

Vesting Provisions

Provisions for intermediate benefits is called "vesting." Vesting has been defined as giving an employee an irrevocable right to his accrued pension,

which is no longer contingent upon his continued employment with the company. When pension plans were first originated, little consideration was given to the inclusion of any death benefits, either prior to, or after, retirement date. Neither were provisions made for severance benefits before retirement. The average employee is willing to work toward goals of a given number of years, e.g., five, ten, or twenty, but he is not much interested in benefits promised at age sixty-five. The result has been a trend toward incorporating intermediate benefits as an essential part of present plans.

The vesting provisions of the forty-two responses to the questionnaires are summarized in Table 4.

TABLE 4

VESTING PROVISIONS

Type of plan	Benefits Vested at Termination of Employment		Benefits Vested at Death	
	Yes	No	Yes	No
Funded	5	16	5	16
Insured	11	1	7	5
Trusteed	3	3	2	4
Neither	1	2	—	3
Total	20	22	14	28

More liberal vesting provisions are found in insured arrangements, particularly as to the vesting of benefits at the termination of employment. The companies as a group show a greater propensity to vest benefits in the termination of employment than at death.

Administration

The administration of pension plans is of vital importance in seeking the welfare of employees. The composition of the group administering the plan may aid or hinder its effectiveness. The basic functions of the administrators are to interpret the provisions of plans and to execute them. Carpenter points out in his study that many of the administrators are well qualified to interpret plans but do not have adequate time to devote to routine details.⁵ If this situation exists, more desirable results may be obtained if plans are administered by both labor and management. The results of the questionnaire indicate that thirty-eight plans are administered by management only.

⁵ Ralph C. Carpenter, Jr., "Administrative Responsibilities of Employee Benefit Plans," *Journal of Commerce* (May 29, 1946), CCVIII, 24.

Pension plans have frequently been asked for by employees as an economic gain in lieu of wage increases, and the monies set aside by management for this purpose rightfully belong to them. In view of this, if employees were represented in the administration, the interests of management and of labor might be better protected. The employee would be participating in the general plan, and administrators could devote more time to routine details, thus aiding the employee and/or his beneficiaries in participating in and receiving their full benefits. Seven companies indicated that plans are administered by both labor and management. One company indicated that the plan is administered by a Retirement Benefits Committee. It is quite obvious that this committee can devote much time to the supervision of the practical functioning of the plan.

Two companies reported that the plans are administered on a trustee basis. A high degree of organization must exist in administering this type of plan, for the benefits are to be paid as they fall due. It is not controlled by management or labor. No plans were reported to be administered solely by labor.

Minimum and Maximum Benefits

The issue of a minimum and maximum dollar-size of benefits is a vital one. The purposes intended by labor or the objectives that management desires to achieve through pension plans depend upon the adequacy of benefits. Employees feel protected when they know that benefits will permit them to retire and maintain an adequate level of living. The geographical location of retired workers is a great determining factor in the adequacy of benefits.

Twenty-nine responses indicated that maximum and minimum amounts of dollar benefits are provided. The maximum dollar benefits ranged from \$312 per year to \$18,000 per year. One company indicated 45 per cent of the highest five years' earnings as being the maximum benefit. Another indicated that the maximum dollar benefit varies according to the percentage of earnings. This company gave no numerical indication.

The minimum dollar amount of benefits ranged from \$120 per year to \$37,000 per year. One response revealed a minimum of \$5.00 per month per year of service, whereas another indicated \$2.50 per month for each year of service up to thirty years. One company's minimum varies according to the percentage of earnings, and another varies according to the length of service and average wages. To the question of minimum and maximum amounts of dollar benefits, fifteen companies responded negatively, and three gave no response. Generally, benefits start from the basic protection afforded by governmental old-age insurance.

Keeping Employees Informed

A part of the effectiveness of a pension plan may be attributed to the employees' knowledge of, and interest in, the plan. Much of the knowledge and interest depends on the communications media used. Forty-four companies responded that some means of communication are used for such purposes. Several companies responded that more than one type of communication is used. The responses as to the methods used are shown in Table 5.

TABLE 5

Means of Communication	Number of Companies
Employee booklets	34
Employee handbook	16
Annual Certificate of Benefits	12
Bulletin board	7
Group meetings with top management	6
Employee magazine articles	5
Company newspapers	2
Formal notification of pending retirement from twelve to twenty-four months before retirement age	1

Each of these media has certain merits, but the effectiveness depends on readability and format. The families of employees may gain knowledge and interest through most of these media.

One company indicated that no method is used to keep employees informed and interested in the pension program. Three companies did not respond to the question on keeping employees informed.

Summary of Findings

Pension plans in American industry that are covered in this study date back to 1904, with more than one-half coming into operation since the Revenue Act of 1942.

Industrial pension plans are classified in several ways. Plans covered in this study are of the formal type, and from the standpoint of financing they are structured on a fully funded basis in more than 40 per cent of the cases. Thirty per cent are financed on an insured basis, and 19 per cent on a trustee basis. Nearly two-thirds of the plans are noncontributory. Where employees contribute to the cost, 88 per cent of the plans provide employees with a right to their contributions at the termination of employment, and 81 per cent provide a right to contributions with interest. Where plans exist on a contributory basis, the amount of contributions varies among different companies and different plans.

Eligibility requirements are based on length of service, age, the nature of

employment, and amount of compensation. The normal retirement age is sixty-five. There is, however, a trend toward retirement beginning at age fifty. A lower retirement age has been established for women, usually beginning five years before that for men.

Twenty responses reveal that provisions have been made for vesting benefits at the termination of employment. Only fourteen vest benefits at death. Vesting benefits are more prevalent among insured plans.

A majority of the pension plans studied are administered by management; none are administered solely by labor. Approximately 15 per cent are administered by both management and labor, and 5 per cent are administered on a trustee basis.

Sixty-two per cent of the companies report having maximum and minimum amounts of dollar benefits, whereas 32 per cent report no such limits. Benefits range from a minimum of \$120 per year to a maximum of \$37,000. A few companies have maximum and minimum amounts calculated according to the percentage of earnings and/or length of service.

Membership in retirement plans has been left largely to the discretion of employees. Only four companies have provisions for compulsory membership. Ninety-four per cent of the companies use some type of communications media to educate and interest employees. Several means of communication are used, and several companies use more than one. Those used most prevalently are employee booklets and handbooks. One company reports that no method is used to keep employees informed and interested in the pension program.

American Intervention in Nicaragua, 1909-33: An Appraisal of Objectives and Results*

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THE REFUSAL OF THE STATE DEPARTMENT in June, 1947, to recognize the *coup* of General Anastasio Somoza gave rise to the fear in Latin America of the return of the United States to a policy of political intervention in Nicaragua.¹ Spruille Braden's "negative intervention" in Nicaragua revealed how long the memory of an unpopular policy can persist in spite of the more assuring events since that time.

In retrospect, American intervention in Nicaragua was the expression of a policy that combined self-interest and idealism in the pursuit of certain objectives. The means toward the desired ends were varied and too often inconsistent or misinterpreted because of the State Department's failure to take the other American republics and the American public into its confidence regarding the real objectives of the United States in Nicaragua. The Department's position was admittedly difficult because its "power doctrine" was repugnant to the American people.² Thus, American intervention was either denounced as a "kaleidoscope of inconsistencies and blunders," or more charitably belabored as a well-meaning but futile attempt to give Nicaragua a progressive and democratic government.³ Still others declared that military action by the United States to preserve order in Nicaragua was more

* This paper, read in the Conference on Latin-American History section of the annual meeting of the American Historical Association in Washington, D.C., on December 29, 1952, is published here with a few changes and some additions.

¹ *New York Times*, June 20, 1947; "Inside Story of the Nicaraguan *Coup*," *U. N. World*, I (1947), 42. Recognition was finally accorded in May, 1948 (*United States Department of State Bulletin*, May 31, 1948).

² Harold Nicolson, *Dwight Morrow* (New York, 1935), 298, hereafter cited as *Morrow*.

³ See Charles H. Hackett, "A Review of Our Policy in Nicaragua," *Current History*, XXIX (1928), 284, hereafter cited as "Review of Our Policy," *CH*; Walter Lippmann, "Some Thoughts on Havana," *Foreign Affairs*, VI (1928), 546, hereafter cited as "Havana," *FA*; R. A. McGowan, "Intervention in Latin America," *Annals of the American Academy of*

an exercise of its moral obligation to uphold law and order than interference with the right of a people to govern themselves.⁴ In general, more criticism was directed at the methods and subsidiary objectives of intervention than at its major aim of guaranteeing national interests and security in the vital Caribbean Sea.⁵ In order to attain the primary objective of security, the United States sought to realize the following:

1. To protect the lives and property of American citizens and European nationals by establishing peace in Nicaragua and Central America through the education of the Nicaraguans for orderly constitutional government and a guarantee of its maintenance.
2. To avert the intervention of European nations in defense of their nationals' investments by making Nicaragua financially solvent and dependent upon the United States.
3. To guarantee American strategic security by controlling the approaches of Isthmian canal routes.

1.

The first American effort toward establishing peace and stability in Nicaragua was motivated by the State Department's reaction to the machinations of the Nicaraguan despot Zelaya, and his hostility to American business on the Mosquito Coast.⁶ To stop Zelaya's intrigues in strife-torn Central America, Theodore Roosevelt and Elihu Root enlisted the co-operation of Mexico in sponsoring a Central American Peace Conference in 1907. This approach was unsuccessful in spite of the resulting agreements pledging the Central American republics to nonintervention in each other's affairs and to the nonrecognition of unconstitutional or revolutionary governments.⁷

Political and Social Science, CXLIV (1929), 113. This periodical will hereafter be cited as *AAAPSS*.

⁴ George T. Weitzel, "The United States and Central America," *AAAPSS*, CXXXII (1927), *passim*, hereafter cited as "Central America," *AAAPSS*.

⁵ *Ibid.*, 115; Dana G. Munro, "The Basis of American Intervention in the Caribbean," *Current History*, XXVI (1927), 861.

⁶ Philip C. Jessup, *Elihu Root* (New York, 1938), I, 501-02, hereafter cited as *Root*; Anna I. Powell, "Relations between the United States and Nicaragua, 1898-1916," *Hispanic American Historical Review*, VIII (1928), 46-47, hereafter cited as "Relations" and the periodical as *HAHR*; José Santos Zelaya, *La Revolución de Nicaragua y los Estados Unidos* (Madrid, 1910), 7, 27, 54, hereafter cited as *La Revolución*; Wilfrid Hardy Callcott, *The Caribbean Policy of the United States, 1890-1920* (Baltimore, 1942), 279, hereafter cited as *Caribbean Policy*. Zelaya's threats to grant a canal concession to a non-American power seriously disturbed the United States. George T. Weitzel, "American Policy in Nicaragua," 64th Cong., 1st sess., *Sen. Doc. 334*, pp. 9-10, hereafter cited as "Policy in Nicaragua," *SD*; Raymond Leslie Buell, "Changes in Our Latin American Policy," *AAAPSS*, CLVI (1931), 130, hereafter cited as "Changes," *AAAPSS*.

⁷ G. H. Hackworth, *Digest of International Law* (Washington, D.C., 1940-44), I, 186; Samuel Flagg Bemis, *The Latin American Policy of the United States. An Historical Interpretation* (New York, 1934), 160-62, hereafter cited as *Latin American Policy*.

When American interests on the Mosquito Coast inspired and largely financed a Conservative-party revolt against Zelaya in October, 1909, Secretary of State Knox at first maintained an attitude of benevolent neutrality but soon found an excuse to openly take sides⁸ by severing relations with Zelaya in a note of unprecedented severity.⁹ Zelaya's position became untenable, and he resigned in late December with a convincing attack on *yanqui* interference in the internal concerns of Nicaragua.¹⁰ His conciliatory successor, Madriz, was also disposed of in August, 1910, because of his energetic campaign against the rebels and Germany's prompt recognition of his regime.¹¹

Although Zelaya's ouster was approved with misgivings by the American public,¹² it was the beginning of a policy that was contrary to the Central American Treaties of 1907 and certainly "uncalled for by any immediate exigency of . . . national security. . . ."¹³ The fact that the United States had discouraged intervention among the five republics but reserved the right of intervention for itself was freely admitted by Knox's assistant secretary

⁸ Callcott, *Caribbean Policy*, 279-80; Roscoe R. Hill, "American Marines in Nicaragua," *Hispanic American Essays*, ed. A. Curtis Wilgus (Chapel Hill, 1942), 344-45, hereafter cited as "Marines," *Hispanic American Essays*; Leslie R. Hahn, "What the War in Nicaragua Means to the United States," *Cosmopolitan*, XLIX (1910), 48-50; *North American Review*, CXCVII (1913), 51-53. Americans on the Mosquito Coast had opposed the end of the British protectorate and supported a separatist movement against Zelaya in 1899. Rising Lake Morrow, "A Conflict between the Commercial Interests of the United States and Its Foreign Policy," *HAHR*, X (1930), 4-13 ff.; Powell, "Relations," *HAHR*, 46-48; *Papers Relating to the Foreign Relations of the United States*, 1909 (Washington, D.C., 1914), 446-51, 456-57, hereafter cited as *FR*, 1909; Cyrus French Wicker, "Canal Is the Answer; International Significance of the Nicaraguan Tangle," *Century*, CXVII (1928), 15, hereafter cited as "Canal Is the Answer," *Century*.

⁹ *FR*, 1909, 452-59.

¹⁰ The creation of the neutral zones assured Zelaya's defeat. Henry H. Hodges, *The Doctrine of Intervention* (Princeton, 1915), 109; Zelaya, *La Revolución*, 109-14; *Papers Relating to the Foreign Relations of the United States*, 1910 (Washington, D.C., 1915), 738-42, hereafter cited as *FR*, 1910.

¹¹ Hill, "Marines," *Hispanic American Essays*, 345; *North American Review*, CXCVII (1913), 53-56; *FR*, 1909, 745-57; Milton Offutt, *The Protection of Citizens Abroad by the Armed Forces of the United States* (Baltimore, 1928), 104-07, hereafter cited as *Protection of Citizens*; *Outlook*, XCV (1910), 278. Emperor William II congratulated Madriz on gaining office. Franz zu Windisch-Grätz, "From a Nicaraguan Notebook," *Living Age*, CCCXXXII (1927), 604-05, hereafter cited as "Nicaraguan Notebook," *LA*.

¹² Cf. *Outlook*, XCIII (1909), 634-35, 792-94, 888-94; *ibid.*, XCIV (1910), 50-51; Amos S. Hershey, "The Situation in Nicaragua," *Independents*, LXVIII (1910), 72-75; Frederick Palmer, "Zelaya and Nicaragua," *Outlook*, XCIII (1909), 855-59. An article, "Zelaya: The Menace of Central America" in *American Review of Reviews* (XXXVII [1908], 496-97) indicates how the dictator was considered.

¹³ Bemis, *Latin American Policy*, 165. Knox attempted to enlist the aid of other Central American states against Zelaya in violation of the nonintervention provisions of the Central American Treaty of 1907. Vicente Sáenz, "The 'Peaceful Penetration' of Central America," *Current History*, XXVI (1927), 914, hereafter cited as "'Peaceful Penetration,'" *CH*.

of state, F. M. Huntington-Wilson.¹⁴ This double standard of political morality provoked great resentment and made Zelaya a hero in Latin America but did not disturb Knox or Huntington-Wilson nor alter their insistence upon "the respected acting respectfully."¹⁵ To accomplish their purpose, they spurned mediation by the Central American Court and committed the United States to undertake the sole responsibility for the political future of Nicaragua.¹⁶

The resulting interventions of the Taft administration were actually intended to support American foreign policy by helping the Nicaraguans help themselves. Knox thus sought to fulfill this objective of Dollar Diplomacy by allowing the Conservatives to rule and by giving Nicaragua financial stability so that those in control could resist revolts at their own expense and repay all moneys borrowed. To realize this hope, the United States committed itself to the maintenance of a minority government by the Dawson Pacts of October, 1910, and to the recognition of the Estrada regime in January, 1911, in spite of the fact that these acts violated the Central American Treaty of 1907 and prejudiced the reputation of the United States in Latin America.¹⁷

Although Knox was well aware that the new Conservative government would collapse without American support, he did not realize the responsibilities that this support entailed until the breakdown of the Dawson Pacts in 1911 and 1912. His hopes were shattered when the vice-president, Adolfo Díaz, joined with the minister of war, Luis Mena, in the removal of President Estrada, and then deprived Mena of his chance at the presidency.¹⁸

¹⁴ F. M. Huntington-Wilson, *Memoirs of an ex-Diplomat* (Boston, 1945), 209, hereafter cited as *Memoirs*.

¹⁵ *Ibid.*, 213. A former colleague, Sands, asserts that Huntington-Wilson was responsible for this formula (William Franklin Sands and Joseph M. Lalley, *Our Jungle Diplomacy* [Chapel Hill, 1944], 188). Root believed that Huntington-Wilson largely inspired Knox's "Dollar Diplomacy" (Jessup, *Root*, I, 563).

¹⁶ Knox refused to submit the dispute to the Central American Court of Justice and ignored Mexico's offer to mediate ("Zelaya Denounced by Our Government," *Independents*, LXVIII [1909], 1280; *ibid.*, 1321-22; *FR*, 1910, 742-43, 754-55; Callcott, *Caribbean Policy*, 283; Isaac Joslin Cox, *Nicaragua and the United States, 1909-1927*, World Peace Foundation Pamphlets [Boston, 1927], X, 709, hereafter cited as *Nicaragua*). Knox's unilateral action provoked great discontent in Latin-American official circles ("The War in Nicaragua," *Current Literature*, XLVIII [1910], 21).

¹⁷ On the Dawson mission, see Henry Merritt Wriston, *Executive Agents in American Foreign Relations* (Boston, 1929), 506-08; *The United States and Nicaragua. A Survey of the Relations from 1909 to 1932*, United States Department of State, Latin American Series, No. 6 (Washington, D.C., 1932), 10-11, hereafter cited as *United States and Nicaragua. A Survey*; *North American Review*, LXVIII (1910), 74-75; "Correspondence. A Nicaraguan Precedent," *Harper's Weekly*, LIV (1910), 6; Bemis, *Latin American Policy*, 166.

¹⁸ As an employee of an American firm, Díaz acted as the disbursing agent in the revolution of 1909 (Moorfield Storey, "Nicaragua and the Policy Our Government Has Pursued," *Century*, CXV [1928], 499, hereafter cited as "Nicaraguan Policy," *Century*; Scott Nearing

Neither Díaz's repression nor Knox's uneasy visit to Managua succeeded in restoring harmony among the Conservatives or impressing the Secretary with the serious anti-American feeling that his policy had evoked.¹⁹

Díaz finally forced Mena into revolt and an alliance with the Zelaya Liberals in July, 1912, which took on the character of a struggle between the friends and the foes of American control.²⁰ Thus when Díaz, threatened with disaster, begged the United States to protect his government, the State Department quickly declared that it would support Díaz's program of "reform" by fighting the revival of Zelayaism and used 2,700 marines and sailors to crush the Mena-Zeledón revolt by late September, 1912.²¹ To maintain the friendly Conservative regime, a "temporary" Legation Guard of 120 marines was left in Managua at the "invitation" of the Díaz government.²²

Knox's exercise of a "moral mandate" to convert covert aid into open interference and the State Department's release of a lengthy memorandum to justify armed interventions²³ did little to allay the rumblings of discontent in the United States with the assumption of "unauthorized" responsibilities at the expense of hemispheric good will.²⁴ Nevertheless, for the next thirteen years the United States pursued a policy of direct interference in Nicaragua that preserved peace and republican forms but did little to foster

and Joseph Freeman, *Dollar Diplomacy: A Study in American Imperialism* [New York, 1925], 155; *North American Review*, CXC VII [1913], 58-59; Dexter Perkins, *Hands Off: A History of the Monroe Doctrine* [Boston, 1941], 252, hereafter cited as *Monroe Doctrine*; *United States and Nicaragua. A Survey*, 11-12; *Papers Relating to the Foreign Relations of the United States, 1911* [Washington, D.C., 1918], 648-71, hereafter cited as *FR, 1911*). With the connivance of Díaz, General Chamorro seized the fortress (*Campo de Marte*) controlling Managua ("The Revolution in Nicaragua," *American Review of Reviews*, XLVI [1912], 573; *United States and Nicaragua. A Survey*, 19-20). The American Minister supported Díaz because Mena had violated the Dawson Pacts by making himself president in 1911 (*ibid.*, 20; Cox, *Nicaragua*, 716-17).

¹⁹ *United States and Nicaragua. A Survey*, 20; *FR, 1911*, 670. An abortive attempt was made to dynamite Knox's train (William Bayard Hale, "With the Knox Mission to Central America," *World's Work*, XXIV [1912], 179-93; *Papers Relating to the Foreign Relations of the United States, 1912* [Washington, D.C., 1919], 1-2, 1109-27, hereafter cited as *FR, 1912*).

²⁰ *FR, 1912*, 1037-39; Dana G. Munro, *The United States and the Caribbean Area* (Boston, 1934), 230, hereafter cited as *The Caribbean*; *United States and Nicaragua. A Survey*, 20; Offutt, *Protection of Citizens*, 111-12; "Our Conflict with Nicaragua," *Current Literature*, LIII (1912), 376.

²¹ *United States and Nicaragua. A Survey*, 21; *FR, 1912*, 993, 1012-71 ff.; Offutt, *Protection of Citizens*, 11-16. Wilson later permitted Mena to return to Nicaragua (*Outlook*, CVI [1914], 20).

²² Hill, "Marines," *Hispanic American Essays*, 352-53; Arthur R. Thompson, "Renovating Nicaragua," *World's Work*, XXI (1916), 496, hereafter cited as "Renovating Nicaragua," *WW*. Thompson was a member of the Mixed Claims Commission in Nicaragua.

²³ See memorandum by J. Reuben Clark, first released in October, 1912 (United States Solicitor General of the Department of State, *Right to Protect Citizens in Foreign Countries by Landing Armed Forces* [3d ed., Washington, D.C., 1934]).

²⁴ "Nicaragua, Intervention, Not Aggression," *Outlook*, CII (1912), 325; *Literary Digest*, XLV (1912), 286, 505-06, 657.

democracy. It was a policy dictated by self-interest and the theory that geographic propinquity and nearness to the Canal Zone created a special relationship that made it necessary to eliminate instability by identifying any government subservient to the United States as the best government for Nicaragua, regardless of the desires of its people.²⁵ Thus in November, 1912, the American Minister secured the election of the unpopular Díaz by bluntly informing the Liberals that any candidate they might nominate would be unsatisfactory.²⁶ The Wilson administration also supported Díaz, in spite of the growing dissatisfaction in Nicaragua with his policies, because he granted a canal option and abetted American financial control.²⁷ Wilson and William Jennings Bryan, in spite of their genuine sympathy for the Nicaraguans, made American intervention more paternalistic and expansive in scope by stressing the duty of the United States to educate Nicaragua for democracy.²⁸ To achieve this end, Wilson coupled nonrecognition with intervention.²⁹

Preoccupation with the European war compelled Wilson to give Bryan, and later Lansing, a free hand to deal with Nicaragua. Bryan, attempting to reconcile his idealism and the *Realpolitik* of security, unsuccessfully sought to secure a direct government loan for free it from the American bankers and bind the Republic more closely to Washington.³⁰ But se-

²⁵ *North American Review*, CXCVII (1913), 61; Charles A. Conant, "Our Mission in Nicaragua," *ibid.*, CXCVI (1912), 66, hereafter cited as "Our Mission," *NAR*; Hill, "Marines," *Hispanic American Essays*, 352; Sumner Welles, *Naboth's Vineyard; The Dominican Republic, 1844-1924* (New York, 1928), II, 919-20, hereafter cited as *Naboth's Vineyard*. Professor Edwin Borchard, former solicitor of the Department of State, frankly declared that "'government by the consent of the governed . . . [has] never been a consideration . . . in our Caribbean policy . . .'" (Storey, "Nicaraguan Policy," *Century*, 452-53).

²⁶ Powell, "Relations," *HAHR*, 51; Cox, *Nicaragua*, 720-21. See Taft's statement on Zelayaism in *FR*, 1912, 1043; Storey, "Nicaraguan Policy," *Century*, 448; *United States and Nicaragua. A Survey*, 22.

²⁷ *United States and Nicaragua. A Survey*, 22, 25; Conant, "Our Mission," *NAR*, 66.

²⁸ Harley Notter, *The Origins of the Foreign Policy of Woodrow Wilson* (Baltimore, 1927), 303, hereafter cited as *Policy of Wilson; Papers Relating to the Foreign Relations of the United States, 1914* (Washington, D.C., 1922), 443-44. Walter Hines Page told Sir Edward Grey that the United States would continue to "shoot" the Latin Americans until they learned to vote by themselves (Burton J. Hendrick, *The Life and Letters of Walter H. Page* [New York, 1924], I, 188). Thus in the treaty purchasing the canal option Bryan included a clause giving the United States "the clear right to intervene to secure free elections" in Nicaragua (Selig Adler, "Bryan and Wilsonian Caribbean Penetration," *HAHR*, XX [1940], 213-14, hereafter cited as "Caribbean Penetration," *HAHR*).

²⁹ Callcott, *Caribbean Policy*, 317; Chandler P. Anderson, "Our Policy of Non-Recognition in Central America," *American Journal of International Law*, XXV (1931), 398.

³⁰ Notter, *Policy of Wilson*, 275; Bemis, *Latin American Policy*, 185-86; Adler, "Caribbean Penetration," *HAHR*, 202-12. Bryan's idea that only American intervention and tutelage could guarantee the safety of the Panama Canal resulted in an increase in American responsibilities in the Caribbean (*ibid.*, 204-05; Clifford D. Ham, "Americanizing Nicaragua," *American Review of Reviews*, LIII [1916], 186, hereafter cited as "Americanizing Nicaragua," *ARR*), and a marked upsurge of anti-Americanism in Latin America. See also Alejandro Alvarez, *The Monroe Doctrine. Its Importance in the International Life of the*

curity considerations in the Isthmian region caused Bryan and his successor to accept the *Realpolitik* of the Latin-American Division's career diplomats and return to a policy of Dollar Diplomacy, tempered by the Financial Plan of 1917 to control Nicaragua.³¹ Thus in order to safeguard the Bryan-Chamorro Treaty, the State Department in 1916 cited Zelayaism to disqualify the candidate of the majority Liberals to secure the election of General Emiliano Chamorro.³²

The elimination of the danger of European intervention at the end of the war in 1919 and the subsequent unpopularity of imperialism and intervention as a power doctrine obnoxious to the American people led to a demand for the end of all political controls short of minimum defense needs in the Caribbean.³³ Equally important was the awareness of such men as the new secretary of state, Hughes, that the war had resulted in greater Hispanic unity at the expense of Pan-Americanism, and that the policy of intervention in Nicaragua was injuring trade in Latin America and driving the Indo-Hispanic nations to Europe and the League of Nations for protection against an expansive Monroe Doctrine.³⁴ While reserving the sole right to

States of the New World (New York, 1924), 243, 333-39, hereafter cited as *The Monroe Doctrine and the New World*; F. Garcia Calderón, *Latin America: Its Rise and Progress* (London, 1915), 225-311 ff.; Luis F. Corea, "Relations of Central and South America As Affected by the European War," *AAAPSS*, LXI (1915), 66-70; Horacio Blanco Fombona, *Crimines del Imperialismo Norteamericano* (Mexico, D.F., 1927), *passim*; Lincoln G. Valentine, "Meddling with Our Neighbors," *Century*, XC (1915), 804, hereafter cited as "Meddling with Neighbors," *Century*.

³¹ *Foreign Relations of the United States. The Lansing Papers* (Washington, D.C., 1940), II, 468-70, hereafter cited as *Lansing Papers*.

³² Professor Munro, former chief of the Department of State's Latin-American Division, declared that the Liberals were "unquestionably" a majority in 1916 (Dana G. Munro, *The Five Republics of Central America* [New York, 1918], 250; Graham Stuart, *Latin America and the United States* [New York, 1928], 332, hereafter cited as *Latin America*; *Outlook*, CXIV [1916], 242; Hill, "Marines," *Hispanic American Essays*, 355; *United States and Nicaragua. A Survey*, 39). Because of Zelaya's utterances in exile (*Outlook*, CXIV [1916], 299), the State Department feared that the Liberals, if returned to power, would abrogate the Bryan-Chamorro Treaty (Hackett, "Review of Our Policy," *CH*, 288).

³³ The suspicion created by Wilson's policy and the destruction of the Central American Court by his refusal to heed the Court's rulings on the Bryan-Chamorro Treaty was further aggravated by German intrigue (Callcott, *Caribbean Policy*, 395, 425-26, 434; Notter, *Policy of Wilson*, 497). Prosperity, the ineptness of German agents, the Creel Committee, and the Legation Guard in Managua prevented any serious trouble for the United States in Nicaragua and Central America (James R. Mock, "The Creel Committee in Latin America," *HAHR*, [1942], 262-64; Buell, "Changes," *AAAPSS*, 132; Nicolson, *Morrow*, 295-98 ff.). There was a strong demand for a revision of the intervention policy during the war because it conflicted with the idealistic objectives of Wilson (Henry R. Mussey, "The Rights of Small Nations, Nicaragua and Colombia," *AAAPSS*, LXXII [1917], 172-76; Oswald Garrison Villard, "The Rights of Small Nations in America," *ibid.*, 171).

³⁴ C. H. Haring, "South America and Our Policy in the Caribbean," *AAAPSS*, CXXXII (1927), 147-51; Isaac Joslin Cox, "Yankee Imperialism and Spanish American Solidarity: A Colombian Interpretation," *HAHR*, IV (1921), 256-65; Julius Klein, "The Monroe

interpret the Monroe Doctrine and the right of "interposition" in self-defense for the United States, Hughes and Sumner Welles tried to eliminate the ill will caused by the paternalistic interventions since 1900 by insisting that the Doctrine did not justify interference in the affairs of other nations.³⁵ Since Nicaragua was the supreme irritant to the Latin-American republics, Hughes considered it a matter of American self-interest to terminate controls in Nicaragua as rapidly as possible.

The liquidation of political intervention in Nicaragua was easier said than done, for the Conservatives desired neither the withdrawal of the marines nor American suggestions for a reform of the electoral system to assure the now more tractable Liberals a fair chance.³⁶ The turbulent and fraudulent elections in 1920, which perpetuated the Chamorro dynasty, revealed what little progress had been made under American tutelage. Since the existing system prolonged American intervention, the Department of State sought to resolve its dilemma by sponsoring a three-point program for (1) electoral reform and supervision, (2) the organization of a nonpartisan constabulary, and (3) the Nicaraguan ratification of the new Central American Treaty of Peace and Amity (1923) and its stronger nonrecognition provisions.³⁷

Doctrine As a Regional Understanding," *ibid.*, 249-52; W. E. Dunn, "The Post-war Attitude of Hispanic America toward the United States," *ibid.*, III (1920), 178-80; Edward Perry, "Anti-American Propaganda in Hispanic America," *ibid.*, 20, 24-28, hereafter cited as "Anti-American Propaganda," *HAHR*; Samuel Guy Inman, "The Monroe Doctrine Is an Obsolete Principle," *Current History*, XXVI (1927), 875, hereafter cited as "An Obsolete Principle," *CH*; Powell, "Relations," *HAHR*, 43. The Latin-American states opposed Article XXI of the Covenant, which signified the League's acceptance of the Monroe Doctrine, and were affronted by the North American insistence that the Doctrine could be maintained only by the United States (James W. Garner, "Recrudescence of the Monroe Doctrine," *Political Science Quarterly*, XLV [1930], 235-36; David Y. Thomas, "The Monroe Doctrine from Roosevelt to Roosevelt," *South Atlantic Quarterly*, XXXIV [1935], 117-36, hereafter cited as "Monroe Doctrine from Roosevelt to Roosevelt," *SAQ*).

³⁵ Merlo J. Pusey, *Charles Evans Hughes* (New York, 1951), II, 530-36, hereafter cited as *Hughes*; Charles Evans Hughes, *The Pathways of Peace* (New York, 1925), 122-28, 157, 162, hereafter cited as *Pathways of Peace*; *New York Times*, April 28, 1922; Sumner Welles, *Time for Decision* (New York, 1944), 187; Willard Beaulac, *Career Ambassador* (New York, 1951), 75, hereafter cited as *Ambassador*.

³⁶ The Legation Guard prevented revolutions and thus placed the United States in the position of supporting the Conservatives in power (*United States and Nicaragua. A Survey*, 39-40; Charles E. Chapman, "An American Experiment in Nicaragua," *American Review of Reviews*, LXVI [1922], 410, hereafter cited as "American Experiment," *ARR*). Clifford Ham, the collector general of the Customs, opposed the withdrawal of the marines because he considered them the most inexpensive "insurance" for stability (Ham, "Americanizing Nicaragua," *ARR*, 187-88).

³⁷ The new President was constrained to "request" the assistance of an American expert in drafting a new electoral law (*United States and Nicaragua. A Survey*, 42; Munro, *The Caribbean*, 242), and Harold Dodds was appointed by the State Department to draft the Electoral Law, which was enacted by a most reluctant Nicaraguan Congress (cf. Harold W. Dodds, "The United States and Nicaragua," *AAAPSS*, CXXXII [1927], 137, hereafter cited as "United States and Nicaragua," *AAAPSS*). On Nicaragua and the Central American Treaty, see *Conference on Central American Affairs* (Washington, D.C., 1923), 289; *United*

Although the Department of State avoided any interference in the electoral campaign of 1924 and announced the withdrawal of the Legation Guard by January, 1925, the newly elected bipartisan coalition showed a reluctance to stand alone.³⁸ Nevertheless, Hughes's successor, Kellogg, ignored the weakness of President Solórzano and withdrew the marines in August, 1925.³⁹

Soon after the departure of the marines, General Emiliano Chamorro staged a military *coup* and, with the clever manipulation of a rump Congress, forced Solórzano to resign, the Vice-President into exile, and installed himself as president.⁴⁰ That Chamorro had gambled on the devotion of the United States to nonintervention was evident when the State Department invoked the Central American Treaty of 1923 and refused to recognize his *fait accompli* in January, 1926.⁴¹ While this form of "negative intervention" forced Chamorro to resign, it provoked a Liberal revolt that the United States could not support.

The exiled Vice-President Sacasa, unable to secure the support of Washington, had launched a vigorous revolt with Mexican aid on the Mosquito Coast.⁴² This presumed Mexican threat to the "special interests" of the United States caused the testy Kellogg to reject the Liberals' proposals for mediation by the Central American republics and to decide on the elimination of both Sacasa and Chamorro by supporting the tainted Díaz as an "impartial" provisional president.⁴³

States and Nicaragua. A Survey, 43-47; Lawrence Dennis, "Nicaragua: In Again, Out Again," *Foreign Affairs*, IX (1931), 497, hereafter cited as "Nicaragua: In Again, Out Again," *FA*. The Coolidge administration was anxious to announce the American withdrawal from Nicaragua in order to forestall the use of the intervention policy as a campaign issue in the election of 1924 (Hill, "Marines," *Hispanic American Essays*, 356).

³⁸ The emasculated Dodds law facilitated the election of the weak Carlos Solórzano, who deliberately slowed up the organization of the constabulary to delay the departure of the Legation Guard (Dodds, "United States and Nicaragua," *AAAPSS*, 138; *United States and Nicaragua. A Survey*, 49-52; Munro, *The Caribbean*, 243-46).

³⁹ Chester Lloyd Jones, *The Caribbean Since 1900* (New York, 1936), 384; Harold Norman Denny, *Dollars for Bullets. The Story of American Rule in Nicaragua* (New York, 1929), 198, hereafter cited as *Dollars for Bullets*. The American press applauded the decision to withdraw the Legation Guard (cf. *Literary Digest*, LXXXVI (1925), 11).

⁴⁰ See Denny, *Dollars for Bullets*, 210-16; *United States and Nicaragua. A Survey*, 52-58; Cox, *Nicaragua*, 775-78; Walter Penfield Scott, "Emiliano Chamorro, Nicaragua's Dictator," *Current History*, XXIV (1926), 345-50.

⁴¹ *Papers Relating to the Foreign Relations of the United States, 1926* (Washington, D.C., 1941), II, 784-85, hereafter cited as *FR*, 1926; L. H. Woolsey, "Non-Recognition of the Chamorro Government in Nicaragua," *American Journal of International Law*, XX (1926), 543-49; John Mabry Mathews, *American Foreign Relations* (New York, 1938), 110, 116.

⁴² Sacasa journeyed to Washington and appealed to the Department of State to uphold the "legitimacy" provisions of the Central American Treaty of 1923 by recognizing him as the constitutional president of Nicaragua (*United States and Nicaragua. A Survey*, 59-60; Munro, *The Caribbean*, 248; Cox, *Nicaragua*, 748).

⁴³ David Bryn-Jones, *Frank B. Kellogg. A Biography* (New York, 1937), 193-94, hereafter cited as *Kellogg*; Stuart, *Latin America*, 336. The State Department had a strong fear

Since the recognition of Díaz and the continued success of his liberal opponents made full intervention inevitable, Coolidge and Kellogg responded to Díaz's plea for protection in December, 1926, by increasing the number of the Navy's neutral zones, lifting the embargo on arms in favor of Díaz, and by the grant of financial credits to his government.⁴⁴ Coolidge's sincere attempt to justify this action by denouncing Mexican interference and asserting the responsibility of the United States to protect the lives and property of its citizens and European nationals, the canal rights under the Bryan-Chamorro Treaty, and the existing financial arrangements was as unconvincing to the American public as Kellogg's effort to conjure a Bolshevik plot emanating from Mexico against the United States.⁴⁵ It proved difficult for Coolidge and Kellogg to escape the fact that they had made a mistake by refusing to take the more practical course of permitting the succession of Sacasa.⁴⁶

In order to extricate itself from a most embarrassing position and stop the victorious Liberals, the Coolidge administration ignored Díaz's requests

of the growth of Mexican influence in the Isthmian region (Wallace Thompson, "The Doctrine of 'Special Interest' of the United States in the Region of the Caribbean Sea," *AAAPSS*, CXXXII [1927], 153-59). Kellogg sought to deal with both factions by embargoing the sale of arms to force them to submit to American mediation and to a new bipartisan government (*FR*, 1926, II, 788-89; *United States and Nicaragua. A Survey*, 62-65; Cox, *Nicaragua*, 780-82; Munro, *The Caribbean*, 250). After the State Department forced the resignation of Chamorro and his puppet successor in December, 1926, Kellogg quickly secured the election of Díaz as president (Dennis, "Nicaragua: In Again, Out Again," *FA*, 214; Henry L. Stimson, *American Policy in Nicaragua* [New York, 1927], 24, hereafter cited as *American Policy*).

⁴⁴ Bryn-Jones, Kellogg, 194; *United States and Nicaragua. A Survey*, 67-68; Munro, *The Caribbean*, 251; Dana G. Munro, "Establishment of Peace in Nicaragua," *Foreign Affairs*, XI (1933), 697, hereafter cited as "Peace in Nicaragua," *FA*; Cox, *Nicaragua*, 783-85, 789-90; *New York Times*, March 20, 1927; Stimson, *American Policy*, 33-35.

⁴⁵ The British and Italian requests that the United States protect their nationals in Nicaragua provided a good argument for Coolidge's defense of intervention (*New York Times*, February 23, 27, 1927). See Coolidge's message to Congress on January 10, 1927 (63d Cong., 2d sess., *Congressional Record*, LXVIII, Part II, 1324-26). Until the Stimson mission in 1927, the State Department feared that the Liberals were pro-Mexican and violently anti-American. Sacasa, however, vehemently denied this assumption (*New York Times*, January 10, 1927). On the alleged Bolshevik plot, see Bemis, *Latin American Policy*, 212; Cox, *Nicaragua*, 784, 787-88.

⁴⁶ Dodds, "United States and Nicaragua," *AAAPSS*, 139. The Commander of the Special Service Squadron told Sacasa that he could never expect even the *eventual* recognition of his regime (*United States and Nicaragua. A Survey*, 65). Kellogg believed that the recognition of Díaz would actually result in less American intervention in Nicaragua (Cox, *Nicaragua*, 787). The recognition of Díaz, who had been a party to Chamorro's coup, weakened the position of the United States because of the doubtful constitutionality of Díaz's election and its violation of Article II of the Central American Treaty of 1923 (Whiting Williams, "Geographic Determinism in Nicaragua," *AAAPSS*, CXXXII [1927], 141-42). Thus also the chief of the State Department's Latin-American Division later wrote: "Each successive step involved the United States more deeply and made it increasingly probable that . . . marines would . . . be drawn into the fighting" (Munro, "Peace in Nicaragua," *FA*, 697).

for a protectorate and retreated to a policy of mediation by dispatching Colonel Henry L. Stimson to restore peace.⁴⁷ But it would have been more politic and prudent to accept Sacasa's proposal for the joint mediation of the United States and the Central American states and thus avoid any further commitments and responsibilities which already entailed the use of over two thousand troops.

Stimson arrived in Nicaragua in April, 1927, to find the Liberals and their ambitious commander, Moncada, conciliatory.⁴⁸ They were neither anti-American nor pro-Mexican and were willing to accept Stimson's offer of a bipartisan government and American supervision of elections in 1928, but without the retention of Díaz.⁴⁹ But since the United States could neither abandon Díaz without further weakening its case nor quickly find a non-partisan replacement, Stimson, with the encouragement of Moncada, insisted upon the retention of Díaz and forced the Liberals to capitulate by an unauthorized threat to use American force against all who continued to be obstinate.⁵⁰

In the Tipitapa Agreement of May, 1927, the United States assumed the responsibility for (1) the supervision of the Presidential elections in 1928, (2) the organization of a nonpartisan Guardia Nacional, and (3) the pacification of Nicaragua.⁵¹ Supervision of elections was particularly important

⁴⁷ Cox, *Nicaragua*, 783-86; Dennis, "Nicaragua: In Again, Out Again," *FA*, 498-99; *United States and Nicaragua. A Survey*, 68; Offutt, *Protection of Citizens*, 140; Stimson, *American Policy*, 90. On the arguments of Senators Borah and Shipstead against intervention, see *New York Times*, January 12, 1927; Henrik Shipstead, "Dollar Diplomacy in Latin America," *Current History*, XXVI (1927), 882-87; C. W. Hackett, "United States Intervention in Nicaragua," *ibid.*, 105-06. On the reaction of the Latin Americans to the Coolidge policy, see Sáenz, "'Peaceful Penetration,'" *CH*, 918; Cox, *Nicaragua*, 787; Welles, *Time for Decision*, 187-88; Manuel Ugarte, "Dangers Latent in U.S. Latin American Policy," *Current History*, XXVI (1927), 898-901. The meeting of the International Commission of American Jurists in Rio de Janeiro in April and May, 1927, approved a resolution condemning political intervention (Perkins, *Monroe Doctrine*, 239-40).

⁴⁸ José María Moncada, "Nicaragua and American Intervention," *Outlook*, CXLVII (1927), 461. For his earlier pronouncements favorable to American intervention, see J. M. Moncada, *Social and Political Influence of the United States in Central America* (New York, 1911), 30 ff.

⁴⁹ Stimson, *American Policy*, 56-57, 71-72; *United States and Nicaragua. A Survey*, 72-73; Henry L. Stimson and McGeorge Bundy, *On Active Service in Peace and War* (New York, 1948), 113-14, hereafter cited as *On Active Service*.

⁵⁰ *New York Times*, May 7, 1927; Munro, *The Caribbean*, 255. Stimson told Moncada that "the honor of the United States" demanded the retention of Díaz. Moncada, "Nicaragua and American Intervention," *Outlook*, 461; *United States and Nicaragua. A Survey*, 74; Denny, *Dollars for Bullets*, 292, 299-300; Ramón Belausteguigoitia, *Con Sandino en Nicaragua, la bora de la Paz* (Madrid, 1934), 90, hereafter cited as *Con Sandino*. Sacasa ordered his followers to comply with the agreement, but he left Nicaragua in protest against the "humiliation" he had suffered (Cox, *Nicaragua*, 801-04). Stimson later declared that his threat was a method of aiding the "statesman-like" labors of Moncada (Stimson and Bundy, *On Active Service*, 114).

⁵¹ *United States and Nicaragua. A Survey*, 78-80. On the reaction of the North American

to Stimson, for he considered it a form of limited intervention that would educate Nicaraguans for orderly self-government and demonstrate the American desire to end intervention.⁵² The American electoral missions from 1928 to 1932 were to a great extent impartial, but several factors—the temporary and questionable legal character of supervision, the lack of popular control over nominations, and government pressure—did not contribute to the growth of self-government in Nicaragua.⁵³ This was true because the solution of these problems involved a long occupation-education technique that the United States could not, and was not willing to, undertake. Thus, after the supervision of three elections, it became painfully evident that supervision, like the Legation Guard, was a crutch that encouraged dependency rather than self-reliance.⁵⁴ In fact, any form of electoral reform or supervision seemed futile, for most Nicaraguans opposed intervention and appeared to prefer internal disorder to an efficient and costly electoral machinery.⁵⁵ As a result, not long after the withdrawal of the marines in 1933, the new electoral system collapsed and became a captive of the American-sponsored "nonpartisan" constabulary.⁵⁶

and Latin-American press, see *Literary Digest*, XCII (May 21, 1927); *Outlook*, CXLVI (1927), 76; *ibid.*, 178; *Living Age*, CCCXXXII (1927), 1050–51.

⁵² Stimson, *American Policy*, 116–17, 119.

⁵³ The "clean" election of 1928 was marred by the discrimination of the Dodds law of 1928 against third parties (Raymond L. Buell, "American Supervision of the Nicaraguan Election," *Foreign Policy Association Information Service*, VI [1929], 387, 395–96, hereafter cited as Buell, "Supervision," *FPAIS*). Chamorro was disqualified as a candidate by General McCoy and the Election Board, while Moncada was ruled eligible (*United States and Nicaragua. A Survey*, 83–88; *Independents*, CXX [1928], 245). Stimson was favorable to Moncada's candidacy (Stimson and Bundy, *On Active Service*, 89). Moncada's repressive measures and schemes to change the constitution to perpetuate himself in power and the inability of the Guardia to remain nonpartisan made the organization and policing of elections very difficult for the American missions (Raymond L. Buell, "Getting Out of Central America," *Nation*, CXXXV [1932], 33; Raymond L. Buell, "Reconstruction in Nicaragua," *Foreign Policy Association Information Service*, VI [1930], 327–30, hereafter cited as "Reconstruction," *FPAIS*; Munro, "Peace in Nicaragua," 701; *United States and Nicaragua. A Survey*, 120–24; José María Moncada, *La Reforma se Impone* [Managua, 1932], *passim*; Beaulac, *Ambassador*, 139; Charles A. Thompson, "The Caribbean Situation: Nicaragua and Salvador," *Foreign Policy Reports*, IX [1933], 143, hereafter cited as "Caribbean Situation," *FPR*).

⁵⁴ Although the State Department agreed to the supervision of the Congressional elections of 1930 and the Presidential election of 1932 (Munro, *The Caribbean*, 262), it declined Moncada's request for the appointment of a permanent American supervisor of Nicaraguan elections (Buell, "Supervision," *FPAIS*, 389–90).

⁵⁵ Beaulac, the former chargé d'affaires in Managua, and Dodds agree that even those Nicaraguans who were anxious for the United States to intervene to protect their lives and property resented the idea of intervention and the tutelage that it implied (Beaulac, *Ambassador*, 77, 123; Dodds, "United States and Nicaragua," *AAAPSS*, 494).

⁵⁶ Stimson, however, was still convinced of the success of supervision as an educational experiment in self-government in Nicaragua (Henry L. Stimson, "Bases of American Foreign Policy during the Past Four Years," *Foreign Affairs*, XI [1933], 395). The Guardia's assassination of Sandino in February, 1934, on the orders of its commander, Somoza, made

The organization of the nonpartisan Guardia Nacional, as a part of the plan to relieve the United States of the responsibility for the maintenance of peace and free elections, proved a costly venture that neither prevented revolution nor preserved the new electoral system in Nicaragua.⁵⁷ Furthermore, the scant regard with which the Nicaraguan Constitution was considered in the organization of the Guardia did not enhance the popularity of the force.⁵⁸ In spite of its marine instructors and training, the Guardia was used for partisan purposes by President Moncada⁵⁹ until under Somoza it became a law unto itself. Worse yet, the Guardia's inability to destroy the *Sandinista* movement did not permit the early withdrawal of the marines.⁶⁰

Sandino's troublesome guerrilla and political war against American intervention from 1927 to 1933 prevented the rapid pacification of Nicaragua.⁶¹ The barrage of criticism in the United States and Latin America, provoked by Sandino's clever publicity and the State Department's attempt to maintain the fiction that he was a bandit-outlaw, was a major motive for the almost frantic desire of the Department to withdraw from Nicaragua.⁶² The

President Sacasa a virtual captive of that force (Arthur Bliss Lane, Minister in Nicaragua, to the Secretary of State, March 7, 1934. 817.00 "Bandit Activities," Archives of the Department of State). For General Somoza's version of his relations with Sandino, see Anastasio Somoza, *El verdadero Sandino o el calvario de las Segovias* (Managua, 1936), *passim*, hereafter cited as *El verdadero Sandino*. See also the work of Sacasa's Minister of Agriculture, an eye-witness of the murder of Sandino. Sofonías Salvatierra, *Sandino o la Tragedia de un Pueblo* (Seville, 1934), hereafter cited as *Tragedia*. At the time of the final withdrawal of the marines, American officers were convinced that the Guardia would be used for political ends by the first politician who could get control of that force (notes of a conversation between the author and Gordon S. Reid, Foreign Affairs officer in charge of Nicaragua, Department of State, Washington, D.C., September 17, 1952).

⁵⁷ Beaulac, *Ambassador*, 121; Buell, "Reconstruction," *FPAIS*, 333-34; *United States and Nicaragua. A Survey*, 100-01; Thompson, "Caribbean Situation," *FPR*, 144.

⁵⁸ Buell, "Reconstruction," *FPAIS*, 333-34; Munro, *The Caribbean*, 226-27.

⁵⁹ Buell, "Reconstruction," *FPAIS*, 330. As early as 1929, Dodds warned that the tendency of the Guardia to be more *bipartisan* than *nonpartisan* would defeat the real reason for its existence (Dodds, "United States and Nicaragua," *AAAPSS*, 496). On the abortive revolt of the Guardia in July, 1934, see *New York Times*, July 21, 1934. Within the next few months Somoza was already mentioned as the "real" ruler of Nicaragua (*ibid.*, September 2 and December 28, 1934; see also n. 56).

⁶⁰ It was not until early 1931 that the Guardia assumed most of the responsibility for the war against Sandino (*United States and Nicaragua. A Survey*, 107-08; Munro, "Peace in Nicaragua," *FA*, 702). The Guardia and the United States marines were able to check but not destroy *Sandinismo* (*ibid.*, 689).

⁶¹ Cf. Joseph O. Baylen, "Sandino: Patriot or Bandit?" *HAHR*, XXI (1951), 394-419, hereafter cited as "Sandino," *HAHR*; Beaulac, *Ambassador*, 113-14; *United States and Nicaragua. A Survey*, 74-75. On other accounts of the Sandino Rebellion, see Somoza, *El verdadero Sandino*, *passim*; Salvatierra, *Tragedia*, *passim*; Belausteguigoitia, *Con Sandino*, *passim*; G. Alemán Bolaños, *Sandino. Estudio completo del hero de las Segovias* (Mexico, City, D.F., and Buenos Aires, 1932), *passim*; Sofonías Salvatierra, *La Verdad os hara Libres* (Managua, 1945), *passim*.

⁶² Dennis, "Nicaragua: In Again, Out Again," *FA*, 499; Baylen, "Sandino," *HAHR*, 409-19; *United States and Nicaragua. A Survey*, 104; *Christian Century*, XLIX (1932),

war against Sandino not only caused an explosion of anti-American feeling at the Sixth Pan-American Conference in Havana in 1928,⁶³ but also became a campaign issue in the elections of the same year⁶⁴ and a source of embarrassment that Stimson endured in dealing with Japan in 1931.⁶⁵ These considerations moved the Hoover administration toward a drastic reorientation of its Nicaraguan and Latin-American policies.⁶⁶

The new program was implemented by the repudiation of the Roosevelt "Corollary" as a justification for intervention in the Reuben Clark Memorandum of 1930 and Stimson's renunciation of Wilson's nonrecognition policy in 1931.⁶⁷ The determination to escape a situation that "aroused more

876. Sandino's militant nationalism was far more popular with foreigners than with Nicaraguans. While Sandino had the support of a fair segment of the Nicaraguan people, his success was due more to the impenetrable terrain in which he operated, economic distress, and foreign support than to extraordinary boldness or exceptional brilliance (Buell, "Reconstruction," *FPAIS*, 339-40; Beaulac, *Ambassador*, 122-23; Munro, "Peace in Nicaragua," *FA*, 689).

⁶³ The astute legalism and courage of Charles Evans Hughes prevented the approval of a strong nonintervention resolution rebuking the United States, but he failed in his attempts to explain American policy in Nicaragua as nonpolitical "interposition of a temporary character" (Pusey, *Hughes*, II, 552-61; Bryn-Jones, *Kellogg*, 195-200; Charles Evans Hughes, *Our Relations to the Nations of the Western Hemisphere* [Princeton, 1928], 81-85; Hughes, *Pathways of Peace*, 122-23; Luis Quintanilla, *A Latin American Speaks* [New York, 1943], 143; Lippmann, "Havana," *FA*, 542; Stewart Beach, "Mr. Hughes and Latin America at Havana," *Independent*, CXX [1928], 214-15).

⁶⁴ See statement of Alfred E. Smith (*New York Times*, August 23, 1928) and the partisan debate of Ogden Mills and Franklin D. Roosevelt in *Foreign Affairs*, VI (1928), 555-72, 573-86; John Foster Dulles, "Conceptions and Misconceptions Regarding Intervention," *AAAPSS*, CXLIV (1929), 103-04.

⁶⁵ Stimson and Bundy, *On Active Service*, 182; Thomas, "Monroe Doctrine from Roosevelt to Roosevelt," *SAQ*, 130; *China Weekly Review*, LXIV (1933), 124-25; Alexander de Conde, *Herbert Hoover's Latin American Policy* (Stanford, 1951), 82, hereafter cited as *Hoover's Policy*. Max Winkler and W. W. Cumberland, "Investments and National Policy of the United States in Latin America," *American Economic Review*, XXII (1932), 190-91, hereafter cited as "Investments and National Policy," *AER*; Raymond Leslie Buell, "Union or Disunion in Central America," *Foreign Affairs*, XI (1933), 486-87, hereafter cited as "Union or Disunion," *FA*.

⁶⁶ Hoover was also greatly impressed with the boycott of American goods in Latin American markets (De Conde, *Hoover's Policy*, 15; Herbert Hoover, *The Memoirs of Herbert Hoover: The Cabinet and the Presidency, 1920-1933* [New York, 1951], II, 210-13; Stimson and Bundy, *On Active Service*, 183; Dantes Bellegarde, "Inter-American Economic Policy," *AAAPSS*, CL [1930], 188-89), the new attitude of American businessmen (cf. Victor M. Cutter, "Relations of American Companies with Latin America," *ibid.*, CXXXII [1927], 130-33), and the anti-American demonstrations he encountered during his preinaugural tour of Latin America (Alexander de Conde, "Herbert Hoover's Good Will Tour," *Historian*, XII [1950], 177-78).

⁶⁷ Kellogg inspired the memorandum in order to reconcile the military interventions sanctioned by the Roosevelt "Corollary" with the Paris Peace Pact (Bemis, *Latin American Policy*, 220). The Reuben Clark Memorandum did not abandon intervention under the necessities of self-preservation or humanitarianism (J. Reuben Clark, *Memorandum on the Monroe Doctrine* [Washington, D.C., 1930], xxiii-xxiv) and thus appears to have reflected the views of Hughes (cf. Pusey, *Hughes*, II, 35-36; C. G. Fenwick, "Intervention: Indi-

resentment than gratitude" was carried further by Stimson's refusal to extend armed protection to Americans in the Nicaraguan interior⁶⁸ and by his statement that Sandino was the sole concern of the Nicaraguan government.⁶⁹ In spite of the new Nicaraguan President's pleas, the marines were completely withdrawn on January 2, 1933.⁷⁰ Sandino's peace with the Sacasa government in the following month was mute evidence that, after three supervised elections and two periods of policing to promote democracy and order, American intervention in Nicaragua had failed.⁷¹ But the more positive results were the subsequent acceptance of the Latin-American formula of nonintervention and the numerous material improvements in Nicaraguan life, health, and finance.⁷²

vidual or Collective," *American Journal of International Law*, XXXIX [1945], 645-46, hereafter cited as "Intervention," *AJIL*; E. C. Stowell, "Humanitarian Intervention," *ibid.*, XXXIII [1939], 733-36). Because of the existence of the Central American Treaty of 1923, the new principle of recognition was not applied to the Central American states until the abrogation of the treaty by two of its signatories in 1934 (Laurence Duggan, *The Americas. The Search for Hemispheric Security* [New York, 1949], 65; Bemis, *Latin American Policy*, 283). The revolutions in South America in 1930 were also responsible for the return to the Jeffersonian criteria for recognition (Stimson and Bundy, *On Active Service*, 177-80; William Starr Myers, *The Foreign Policies of Herbert Hoover* [New York, 1940], 45-46).

⁶⁸ Stimson and Bundy, *On Active Service*, 182-85. Stimson announced the government's intention to withdraw the marines from Nicaragua as rapidly as possible (*New York Times*, November 23, 1929). See Stimson's statement re the protection of Americans in Nicaragua (*ibid.*, April 19, 1931; *United States and Nicaragua. A Survey*, 105). On the criticism of Stimson's move, see *Outlook and Independent*, CLVII (1931), 581-82. Yet, even before 1931, American jurists emphasized the fact that injury to an American citizen abroad does not mean harm to the United States (Edwin M. Borchard, "The Protection of American Citizens Abroad by Armed Force," *AAAPSS*, CXLIV [1929], 124).

⁶⁹ *New York Times*, May 10, 1931.

⁷⁰ In December, 1931, Hoover pledged the complete withdrawal of the marines immediately after the Presidential election in Nicaragua in November, 1932 (*ibid.*, December 11, 1931). On the reaction of the American public to the end of intervention, see *Literary Digest*, CXV (1933), 10; *World Tomorrow*, XVI (1933), 28-29; *Christian Century*, L (1933), 245-46; *New York Times*, January 2, 1933. American military officers remained to head the Nicaraguan Military Academy until July, 1947, when they were withdrawn in protest against the Somoza coup over the objections of the United States Army (notes of a conversation between the author and Gordon S. Reid, Foreign Affairs officer in charge of Nicaragua, Department of State, Washington, D.C., September 17, 1952).

⁷¹ Baylen, "Sandino," *HAHR*, 418-19; Beaulac, *Ambassador*, 123, 218, 258. The agreements between the Liberal and Conservative parties to support Sacasa in dealing with Sandino undoubtedly did much to influence the latter to come to terms (Munro, "Peace in Nicaragua," *FA*, 702-03). On later developments, see *New York Times*, August 3, 13, 1933; October 6, 1933; April 26, July 20, November 30, 1934.

⁷² Franklin D. Roosevelt, *On Our Way* (New York, 1934), 133; Cordell Hull, *Memoirs of Cordell Hull* (New York, 1948), I, 315-55 ff.; Welles, *Time for Decision*, 191-92. United States' pledges against unilateral intervention were strengthened in subsequent Pan-American conferences and by the American acceptance of the principle of collective intervention (Thomas, "Monroe Doctrine from Roosevelt to Roosevelt," *SAQ*, 133-35; Fenwick, "Intervention," *AJIL*, 657; Perkins, *Monroe Doctrine*, 346-47). This new policy had been urged as early as 1929 (cf. Raymond L. Buell, "The Protection of Foreign Lives and Property in Disturbed Areas," *AAAPSS*, CXLIV [1929], 96). Much of the progress in sanitation

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Financial controls in Nicaragua were undertaken by Taft and Knox on the theory that American customs-control would curb irresponsible financial practices and thus prevent European intervention.⁷³ The immediate objective of this policy was the termination of Zelaya's financial flirtations with Europe and the promotion of American business interests and political stability.⁷⁴ Nicaragua's good record on the payment of foreign loans and the United States Senate's rejection of the Knox-Castrillo Convention of 1911 mattered little to Knox.⁷⁵ Taking advantage of the financial dislocation caused by the recent revolution, Knox used the New York bankers' Treasury Bill Agreement with the Díaz government in 1911 and their token loan to institute an efficient system of unofficial customs-control.⁷⁶ Although this experiment in customs-control was successful, it encouraged financial dependence, excited hostility, and contributed to further armed intervention in Nicaragua.⁷⁷

From 1911 to 1920, the financial life of Nicaragua was under the control of the Seligman Company's and Brown Brothers' banking interests operating through the collector general, Clifford D. Ham, who collected and retained customs revenues to service the nation's external debt.⁷⁸ The loans

and public health was accomplished under the direction of the Rockefeller Foundation and the collector general of the Customs (Stimson, *American Policy*, 98-99; *Bulletin*, Pan American Union, LIV [1922], 349).

⁷³ FR, 1912, xii, 1072; Bemis, *Latin American Policy*, 344; Munro, *The Caribbean*, 219; *Outlook*, XCVIII (1911), 856.

⁷⁴ In May, 1909, Zelaya funded Nicaragua's external indebtedness by negotiating a loan with the Ethelburga syndicate of European bankers in London (*United States and Nicaragua. A Survey*, 3). See also Weitzel, "Central America," *AAAPSS*, 125; Henry F. Pringle, *The Life and Times of William Howard Taft* (New York, 1939), II, 678-79; Callcott, *Caribbean Policy*, 258. Some Americans hoped that financial control through loans would put Nicaragua under "bond" to keep peace (*Outlook*, CI [1912], 846).

⁷⁵ Munro, *The Caribbean*, 217; *United States and Nicaragua. A Survey*, 12-13. Opposition to American financial control was a major cause for the Mena Revolution in December, 1911 (Callcott, *Caribbean Policy*, 284-86).

⁷⁶ Knox's precipitate action was largely responsible for the Senate's rejection of the Knox-Castrillo Convention in May, 1912 (Stimson, *American Policy*, 123; *United States and Nicaragua. A Survey*, 14; Richard W. Van Alstyne, *American Diplomacy in Action. A Series of Case Studies* [Stanford, 1944], 182).

⁷⁷ On the political problems attendant to financial intervention, see Henri Bonfils, *Manuel de droit international public* . . . (Paris, 1905), 163.

⁷⁸ According to the Treasury Bills Agreement between the Nicaraguan government and the American bankers in 1911, the collector general of the Customs was to be nominated by the bankers, approved by the American Secretary of State, and appointed by the Nicaraguan President. "By the exercise of its good offices, and although not a party to the agreement, [the United States] approved the person designated by the American bankers. . . . The American interest involved was in the office concerned and not in the man" (letter of Gordon S. Reid, Foreign Affairs officer in charge of Nicaragua, Department of State, to the author, October 23, 1952). In approving the appointment of Ham as collector general, Knox made it clear that this approval must not be interpreted to mean that the United States

of the American bankers were small and granted only as temporary expedients, but they were strictly secured by their control of 51 per cent of the stock of the National Bank and the Pacific Railway, liens on customs revenue, and the pledge of Nicaraguan Treasury bills.⁷⁹ Until the Wilson administration abandoned its early hostility to Dollar Diplomacy, the bankers were reluctant to do little more.⁸⁰ Yet, much was accomplished. Badly needed financial reconstruction was spurred on by American advisers and intensified by the Wilson administration through the media of the Bryan-Chamorro Treaty and the Financial Plans of 1917 and 1920.⁸¹

During these years Nicaragua was made financially responsible but not solvent. The reorganization of the currency, the funding and the steady payment of the European debt, the pressing civil war claims, crop failures, and the expense of American financial supervision kept the Nicaraguan government near bankruptcy.⁸² Even the reduction of the interest on the European loan of 1909, secured by the American bankers, and the Mixed Claims Commission's preference to Nicaraguans in the payment of claims could not alleviate the hostility that financial supervision and the heavy terms of the bankers engendered.⁸³ In desperate straits, the Díaz government looked hopefully to the financial relief promised by the sale of the canal option to the United States in the Weitzel-Chamorro Treaty of 1913, and even threatened to turn to Europe for a loan if the treaty was not approved by the Americans.⁸⁴

government would lend "any other . . . good offices in the protection of the American parties to this contract . . ." (*United States and Nicaragua. A Survey*, 14-15).

⁷⁹ *Papers Relating to the Foreign Relations of the United States*, 1913 (Washington, D.C., 1920), 1034-67, hereafter cited as *FR*, 1913. For a summary of the various loans of the American bankers and the security pledged by the Nicaraguan government, see T. H. Gammack, "What Is the Truth about Nicaragua and Wall Street?" *Outlook*, CXLVIII (1928), 309, hereafter cited as "Nicaragua and Wall Street," *Outlook*; Bemis, *Latin American Policy*, 165; Munro, *The Caribbean*, 232-33; Cox, *Nicaragua*, 714.

⁸⁰ Notter, *Policy of Wilson*, 246; *United States and Nicaragua. A Survey*, 27.

⁸¹ On the missions of American financial advisers during the years 1910-17, see *FR*, 1910, 764-66; *FR*, 1911, 651-58 ff.; *FR*, 1912, 1082, 1092-93, 1102-03; *Papers Relating to the Foreign Relations of the United States*, 1917 (Washington, D.C., 1926), 1098, 1113-24, hereafter cited as *FR*, 1917; Powell, "Relations," *HAHR*, 53-54.

⁸² On the details of Nicaragua's financial trouble during 1913 and 1914, see John Parke Young, *Central American Currency and Finance* (Princeton, 1925), 145-76; *United States and Nicaragua. A Survey*, 22-28; Powell, "Relations," *HAHR*, 54-55; Munro, *The Caribbean*, 231, 233; Valentine, "Meddling with Neighbors," *Century*, 803-04.

⁸³ Harold Playter and Andrew McConnico, *Nicaragua. A Commercial and Economic Survey* (Washington, D.C., 1927), 80-81. The New York bankers arranged for a first lien on the Nicaraguan Customs for the payment and amortization of these bonds from Customs revenues collected by the collector general, acting as the fiscal agent for the bondholders (*United States and Nicaragua. A Survey*, 18-19; Munro, *The Caribbean*, 233). On the work of the Claims Commission, see *North American Review*, CXCVII (1913), 61; Cox, *Nicaragua*, 712-13; *United States and Nicaragua. A Survey*, 15. The collection of internal revenues by the National Bank was so unpopular that it was discontinued by the bank in 1913 (*United States and Nicaragua. A Survey*, 25).

⁸⁴ Playter and McConnico, *Nicaragua. A Commercial and Economic Survey*, 81; Adler,

This threat, plus Díaz's repeated request for a protectorate, impelled Bryan to add a "protector plan" to the treaty.⁸⁵

While Bryan's solution delayed the ratification of the canal treaty and dimmed the Nicaraguan hope of financial relief from that source, his attitude toward the bankers made them reluctant to grant more loans to the needy Republic.⁸⁶ It was not until the rejection of Bryan's revised treaty in August, 1913, that he fell back on the help of the bankers.⁸⁷ They came to Nicaragua's rescue at a heavy price, which involved complete control of the Pacific Railway and the National Bank and a third lien on the customs.⁸⁸ This undoubtedly contributed to Bryan's abortive plan to extend the credit of the United States to Nicaragua to rescue the Republic from the grasp of the bankers, stabilize its politics, and at the same time increase American influence.⁸⁹

The Senate's ratification of the Bryan-Chamorro Treaty in February, 1916, complicated rather than eased Nicaragua's financial problem because of the delayed appropriation and the disagreement over the disposition of the funds to pay for the canal option.⁹⁰ Since the United States had reserved the right to dictate how the money should be spent and had the power to bargain for financial concessions, the Nicaraguans stood to benefit little at a time of most urgent need. The new president, Chamorro, therefore blamed the State Department for his troubles and demanded the release of customs receipts.⁹¹ To resolve this dilemma and institute a less irritating system of supervision that would ease the control of the bankers, the Wilson adminis-

"Caribbean Penetration," *HAHR*, 206; Cox, *Nicaragua*, 722-23; Powell, "Relations," *HAHR*, 55.

⁸⁵ According to Bryan's "protector plan" the United States would assume the right to intervene at any time to protect life and property against domestic upheaval in Nicaragua (Cox, *Nicaragua*, 724; Adler, "Caribbean Penetration," *HAHR*, 208).

⁸⁶ Adler, "Caribbean Penetration," *HAHR*, 206. Bryan hoped that the purchase of the canal option and the creation of a protectorate would persuade the bankers to be more generous to Nicaragua (Notter, *Policy of Wilson*, 253).

⁸⁷ *FR*, 1914, 944-53; Bemis, *Latin American Policy*, 186-87; Adler, "Caribbean Penetration," *HAHR*, 209.

⁸⁸ *United States and Nicaragua. A Survey*, 25-26; Adler, "Caribbean Penetration," *HAHR*, 209-10. The bankers refused to relieve Nicaragua's plight until the Bryan-Chamorro Treaty was ratified (Thompson, "Renovating Nicaragua," *WW*, 499).

⁸⁹ Bryan's memorandum to Wilson in July, 1913, suggested that these problems could be solved by direct loans from the United States government to the nations concerned (Adler, "Caribbean Penetration," *HAHR*, 208-09; Bemis, *Latin American Policy*, 185). Bryan's scheme was largely realized twenty years later by the creation of the Export-Import Banks. He had also suggested a new "corollary" to the Monroe Doctrine in October, 1913, by which the United States would assume the right to pass on the actions of foreign residents and corporations in Latin America (Adler, "Caribbean Penetration," *HAHR*, 210-11).

⁹⁰ *United States and Nicaragua. A Survey*, 33; Cox, *Nicaragua*, 729; Playter and McConico, *Nicaragua. A Commercial and Economic Survey*, 81.

⁹¹ Munro, *The Caribbean*, 236; *United States and Nicaragua. A Survey*, 33; *FR*, 1917, 1097-1100.

tration secured the approval of the Financial Plan of 1917.⁹² The Plan satisfied the bankers and overcame Nicaraguan hostility to the collector's suggested control over all revenues⁹³ by the creation of a Joint High Commission, which would control the budget and external finances of Nicaragua, determine the distribution of the treaty money, and clarify the duties of the collector general.⁹⁴ To assure Nicaragua's compliance, the Department of State made its approval of the expenditure of the treaty funds contingent upon the Republic's acceptance of the Financial Plan.⁹⁵

Due to the efficient financial administration and general prosperity from 1917-20, the Plan was highly successful in rehabilitating the finances of Nicaragua by materially reducing its European debt, redeeming outstanding treasury notes, reducing the number of claims, and liquidating the loans of American bankers.⁹⁶ Increased revenues and the State Department's encouragement also enabled the Nicaraguan government to conclude with the bankers the Financial Plan of 1920, which provided for the Republic's repurchase of control of the Pacific Railway and the inauguration of a public works program.⁹⁷ Although the existence of the High Commission and customs supervision was confirmed, the policy of regaining control of national enterprises was carried forward by the repurchase of the National Bank in 1924.⁹⁸ Thus Nicaragua was freed from the control of the bankers and the High Commission began to exercise a decreasing amount of control⁹⁹ at the

⁹² See *FR*, 1917, 1127-28, 1152-53.

⁹³ Only a sharp rejoinder from the United States prevented Chamorro from seizing Customs houses (*United States and Nicaragua. A Survey*, 35; Chapman, "American Experiment," *ARR*, 408; Benjamin H. Williams, *Economic Foreign Policy of the United States* [New York, 1929], 199, hereafter cited as *Economic Foreign Policy*). Chamorro bitterly opposed the bankers' demands for a financial adviser with complete power over all Nicaraguan finances (*United States and Nicaragua. A Survey*, 34; Munro, *The Caribbean*, 236).

⁹⁴ The Financial Plan of 1917 fixed the national budget at \$95,000 per month. Any expenditures above that amount were to be approved by the High Commission (*United States and Nicaragua. A Survey*, 36; Cox, *Nicaragua*, 733).

⁹⁵ *United States and Nicaragua. A Survey*, 35; Cox, *Nicaragua*, 731-32; Williams, *Economic Foreign Policy*, 211-12; Playter and McConnico, *Nicaragua. A Commercial and Economic Survey*, 82. The canal money was finally appropriated by Congress in 1917.

⁹⁶ *United States and Nicaragua. A Survey*, 37-38; Bemis, *Latin American Policy*, 165, 187.

⁹⁷ Playter and McConnico, *Nicaragua. A Commercial and Economic Survey*, 82. The High Commission approved an increase in the national budget and the use of surplus funds for railway and public works construction, but the economic recession in 1921 caused the abandonment of these plans (*United States and Nicaragua. A Survey*, 38-39; Bemis, *Latin American Policy*, 187; Gammack, "Nicaragua and Wall Street," *Outlook*, 309). Plans to obtain a loan in the United States were also abandoned due to the opposition of the Nicaraguan Congress (Cox, *Nicaragua*, 735-36).

⁹⁸ *United States and Nicaragua. A Survey*, 46. The Pacific Railway was repurchased in 1924 (Gammack, "Nicaragua and Wall Street," *Outlook*, 309).

⁹⁹ Munro, *The Caribbean*, 239. Representatives of American banking interests continued to occupy positions on the board of directors of the bank and railway and to supervise the management of these corporations until 1929 (*United States and Nicaragua. A Survey*, 46,

time that the United States was terminating its military occupation. The yoke of the bankers had been strict but not excessively profitable for them. They had come in at the urging of the State Department to eliminate European influence, performed their task, and were now glad to get out.

Although by 1924 the Nicaraguan debt had been reduced to a quarter what it had been in 1911 and the Republic had experienced great economic improvement, financial supervision was unpopular. Nicaraguans accused the National Bank and the collector general of speculation, a deflationary policy, and particularly the subordination of public improvements to fiscal demands.¹⁰⁰ Worse yet, financial stability and a full treasury actually encouraged unrest by emboldening Chamorro to ignore American nonrecognition of his *coup d'état* in 1925.¹⁰¹ While the State Department intervened against Chamorro's Liberal opponents because they had interfered with the operation of the Customs on the east coast, it forced the dictator to give way because of his threat to hamper the operation of the Financial Plans of 1917 and 1920.¹⁰² Nevertheless, the disturbances of 1926-27 did not destroy the machinery of financial supervision, and the State Department and the bankers used it to support Díaz against the Liberals with the Customs receipts and well-secured short-term loans.¹⁰³ This did not restore the control of the bankers, for the rapid economic recovery of Nicaragua enabled it to repay the loans by the end of 1928.¹⁰⁴

In spite of the abnormal expense caused by the civil war, the Sandinista Rebellion, and the world depression during 1927-33, American financial supervision and loan-controls enabled the Nicaraguan government to maintain the highest credit rating in Central America.¹⁰⁵ This was accomplished

96; *Economic Controls and Commercial Policy in Nicaragua*, United States Tariff Commission [Washington, D.C., 1947], 10, hereafter cited as *Economic Controls*).

¹⁰⁰ Playter and McConnico, *Nicaragua. A Commercial and Economic Survey*, 82; Powell, "Relations," *HAHR*, 62; Cox, *Nicaragua*, 737-38; Chapman, "American Experiment," *ARR*, 408-09.

¹⁰¹ Bryn-Jones, *Kellogg*, 192; Cox, *Nicaragua*, 779.

¹⁰² Williams, *Economic Foreign Policy*, 195; *United States and Nicaragua. A Survey*, 59-61. Both sides were warned by the State Department that the victor of the civil war was expected to abide by the Financial Plans and meet all external obligations (*ibid.*, 59).

¹⁰³ Williams, *Economic Foreign Policy*, 195. The National Bank, the Guaranty Trust Company, and J. and W. Seligman and Company loaned \$1,300,000 to the Díaz government. These loans were secured by a mortgage on the new taxes levied in January, 1927, 50 per cent of the surplus, dividends, and stock of the National Bank and Pacific Railway (*United States and Nicaragua. A Survey*, 69-70; Gammack, "Nicaragua and Wall Street," *Outlook*, 309).

¹⁰⁴ *United States and Nicaragua. A Survey*, 70. The expenditures of the American forces in Nicaragua undoubtedly contributed to the economic recovery of the Republic.

¹⁰⁵ Chester Lloyd Jones, "Loan Controls in the Caribbean," *HAHR*, XIV (1934), 154, hereafter cited as "Loan Controls." The existence of the High Commission and its influence on the budget was a very essential part of American supervision (*United States and Nicaragua. A Survey*, 94).

through the elimination of customs exemptions, the maintenance of a stable currency, and the bipartisan Claims Commission's steady payment of all claims arising from the recent civil war.¹⁰⁶ Meanwhile, the extension of national control continued as the Moncada regime liquidated the last of Zelaya's foreign concessions and in 1929 used a disagreement with the bankers over management policies to dissolve the corporations of the Pacific Railway and the National Bank in the United States and reincorporate them in Nicaragua.¹⁰⁷ Yet, the government cautiously attempted to retain the moral backing of the United States by depositing its surplus funds in New York.¹⁰⁸ Moneys necessary to combat the Sandino movement and for a public works program during the depression were provided by loans from the National Bank,¹⁰⁹ and Nicaragua thus attempted to avoid further foreign indebtedness. The Moncada government survived the financial crisis caused by the fall in revenues and the Managuan earthquake in 1931 with a small loan from its fiscal agent in New York and the creation of a national commission for the control of foreign exchange.¹¹⁰ Unfortunately, such efforts were not aided by the economic discriminations of the Smoot-Hawley Tariff.¹¹¹

At the time of the final withdrawal of the marines in 1933, the public finances of Nicaragua were in an excellent state. There were no outstanding obligations to American bankers, the collector general had reduced Nicaragua's surviving Ethelburga loan by half, and the internal Customs bonds of 1918 were rapidly being liquidated.¹¹² But since the United States was

¹⁰⁶ *Economic Controls in Nicaragua*, 8; Munro, *The Caribbean*, 272; Playter and McConico, *Nicaragua. A Commercial and Economic Survey*, 8. The Commission, created in 1927, gave preference to the numerous small claims of Nicaraguans (*United States and Nicaragua. A Survey*, 94-95).

¹⁰⁷ *Ibid.*, 95-96. Brown Brothers and J. and W. Seligman and Company resigned as fiscal agents in New York for the Pacific Railway and the National Bank in December, 1929, and the directorates of the new corporations were reorganized to consist of a majority of Nicaraguans (*ibid.*, 96; Buell, "Reconstruction," *FPAIS*, 325-26).

¹⁰⁸ Buell, "Reconstruction," *FPAIS*, 326.

¹⁰⁹ The National Bank's loans to the government were amply secured by the pledge of railroad revenues and divers taxes (*United States and Nicaragua. A Survey*, 96-97).

¹¹⁰ *Ibid.*, 97-98; Samuel G. Inman, "Latin America and Revolution," *World Tomorrow*, XVI (1933), 18.

¹¹¹ Welles, *Time for Decision*, 190-91; N. H. Davis, "Wanted: A Consistent Latin American Policy," *Foreign Affairs*, IX (1931), 548. Economists declared that an increase in American trade with Latin America and particularly with Nicaragua would create less antagonism than loans and investments (W. W. Cumberland, "Our Economic Policy toward Latin America," *AAAPSS*, CLVI [1930], 176; Welles, *Naboth's Vineyard*, II, 930).

¹¹² *Annual Report of the Collector General of the Customs, 1932* (Managua, 1933), 11, hereafter cited as *Annual Report*, 1932. The Ethelburga loan was liquidated by 1945 (Jones, "Loan Controls," *HAHR*, 153). During the latter part of 1933, declining revenues caused the collector general to seek a moratorium on the Ethelburga loan and the Customs bonds of 1918 (*New York Times*, October 12, 1933). The amortization payments on the Customs bonds of 1918 were seventeen years ahead of schedule (*United States and Nicaragua. A Survey*, 97).

obligated to the European bondholders to guarantee the collection of the revenue pledged to service their loan, the "nebulous" arrangement of controls was maintained by the Hoover and Roosevelt administrations through the High Commission until 1944 and by the collector general until late 1949, when Somoza was informed of the end of American "interest" in the collector generalship.¹¹³

But what did financial intervention in Nicaragua achieve? On the positive side: the stabilization of the currency by the creation of a worthy National Bank, the reduction of Nicaragua's national debt and interest rate to a point well below those of the other Central American republics, the equitable liquidation of war claims, national ownership and management of the Pacific Railway and National Bank, the establishment of an efficient and inexpensive customs system and a sound national budgetary program that increased and regularized national revenue, and the elimination of the danger of European intervention by the protection of foreign capital and the establishment of financial responsibility.¹¹⁴ On the negative side was the odor of imperialism created by inevitable misunderstandings, the native dislike of any foreign tutorship,¹¹⁵ and the fact that intervention was largely

¹¹³ *Economic Controls in Nicaragua*, 10; De Conde, *Hoover's Policy*, 73; Edward O. Guerrant, *Roosevelt's Good Neighbor Policy* (Albuquerque, 1950), 169. At the conference of American states in Montevideo in 1933, Cordell Hull accepted the nonintervention pledge with reservations because prior commitments compelled the United States to maintain some financial control in Nicaragua until the Ethelburga obligation was liquidated (Thomas, "Monroe Doctrine from Roosevelt to Roosevelt," *SAQ*, 133-34). When Somoza, in need of a "dollar balance" in 1944, learned that the collector general, Irving Lindberg, was maintaining large dollar balances in the United States with Customs revenues, he forced Lindberg to "leak" \$140,000 of Customs funds. Meanwhile, Lindberg infuriated Nicaraguan businessmen in the exercise of his duties as chief of Price Controls and Rationing in Nicaragua, and this was later used by Somoza as an excuse to replace him as collector general in 1949. In reply to his query as to whether the United States would object to Lindberg's removal, Somoza was told on December 19, 1949, that since all previous financial arrangements had been "informal" and all obligations to American creditors had been fulfilled, no American interest was any longer involved in the office of collector general of the Customs. Since Lindberg was now considered a private citizen "entitled to only those protections due any American citizen abroad," he was dismissed within a week (notes of a conversation between the author and Gordon S. Reid and the latter's conversation with John L. Topping, Economic Attaché in Managua from 1947-51, at the Department of State, Washington, D.C., September 17, 1952. Also letter of Reid to the author, October 23, 1952).

¹¹⁴ Playter and McConnico, *Nicaragua. A Commercial and Economic Survey*, 82; Gam-mack, "Nicaragua and Wall Street," *Outlook*, 311. One of the most constructive aspects of intervention was the stabilization of the Nicaraguan currency through the creation of a National Bank (Cox, *Nicaragua*, 738; Williams, *Economic Foreign Policy*, 188; Stimson, *American Policy*, 126). See also *New York Times*, October 12, 1933; March 7 and July 12, 1934; *United States and Nicaragua. A Survey*, 4; Playter and McConnico, *Nicaragua. A Commercial and Economic Survey*, 8; *Annual Report*, 1932, *passim*.

¹¹⁵ Lippmann, "Havana," *FA*, 550; Thomas, "Monroe Doctrine from Roosevelt to Roosevelt," *SAQ*, 133-34; Buell, "Changes," *AAAPSS*, 131. Financial supervision was unpopular because of the usual objection to borrowing money on secured credit and foreign control of customs revenues (Jones, "Loan Controls," *HAHR*, 162; see also *Time*, LV

confined to the improvement of national finance and had not created a sound basis for the economic, social, and political development of the Republic.¹¹⁶ This neither hastened the end of American political intervention nor ensured the continuance of orderly democracy. Lastly, in spite of increased trade with the United States, financial supervision neither drove out European capital nor increased American investments, for American capital did not concern itself with the strategic or political considerations of the Department of State.¹¹⁷ It remained for the creation of an Export-Import Bank after 1933 to provide American capital and credit for Nicaragua without the friction that resulted from informal financial controls and private loans.

3.

The requirements of national and continental security dictated American control of all Isthmian canal routes and furnished a very real motive for intervention in Nicaragua to frustrate Zelaya's spiteful overtures to Japan and Madriz' flirtations with England and Germany to promote a Nicaraguan canal.¹¹⁸ Thus on the grounds that the purchase of the canal option would secure the defense of the Panama Canal by eliminating a possible incentive for European intervention and aid the political and financial stabilization of Nicaragua, Knox concluded the Weitzel-Chamorro Treaty with Zelaya's successors in February, 1913.¹¹⁹

In spite of the Wilson administration's support, the canal treaty was re-

[1950], 32). In the eyes of Nicaraguans, their rights were often secondary to those of the foreign creditors (cf. Playter and McConnico, *Nicaragua. A Commercial and Economic Survey*, 8). Nor did the disavowal of imperialism by American businessmen lessen the charges of Nicaraguan nationalists and professional "Yankeeophobes."

¹¹⁶ Beaulac, *Ambassador*, 120; Denny, *Dollars for Bullets*, 383; Welles, *Time for Decision*, 191; Williams, *Economic Foreign Policy*, 145, 193, 195. For a recent analysis of the economic and social situation, see *The Economic Development of Nicaragua* (Baltimore, 1953). The "co-operative action technique" was urged by many as a more effective means of solving the economic problems of such nations as Nicaragua (Beaulac, *Ambassador*, 120).

¹¹⁷ On Nicaraguan trade with the United States in 1933, see *New York Times*, May 7, 1934. In 1933, American investments in Nicaragua were less than in any other Latin-American nation except Ecuador and Paraguay (*United States and Nicaragua. A Survey*, 4; Bemis, *Latin American Policy*, 166; Winkler and Cumberland, "Investments and National Policy," *AER*, 152).

¹¹⁸ On the interest of the United States and the European powers in the Nicaraguan canal route, see Lindley Miller Keasby, *The Nicaraguan Canal Route and the Monroe Doctrine. A Political History of the Isthmian Transit . . .* (New York, 1896); Miles P. DuVal, Jr., *Cadiz to Cathay. The Story of the Long Struggle for a Waterway across the American Isthmus* (Stanford, 1940), 12-86 ff.; R. R. Hill, "Nicaraguan Canal Idea to 1913," *HAHR*, XXVIII (1948), 197-211, hereafter cited as "Canal Idea," *HAHR*. Hill asserts that the idea of a Nicaraguan canal was largely responsible for the American "experiment in imperialism in Nicaragua" (*ibid.*, 199; Weitzel, "Policy in Nicaragua," *SD*, 9-10; Wicker, "Canal Is the Answer," *Century*, 14-15). On Madriz' friendly disposition toward Germany, see Windisch-Grätz, "Nicaraguan Notebook," *LA*, 604-05.

¹¹⁹ *United States and Nicaragua. A Survey*, 29; Weitzel, "Policy in Nicaragua," *SD*, 10.

jected by the Senate because of Bryan's addition of a protectorate provision.¹²⁰ It was quickly revived in August, 1914, as the Bryan-Chamorro Treaty in order to alleviate Nicaragua's acute distress and counter an alleged German move to secure the canal option.¹²¹ Although the protectorate clause was eliminated and the treaty continued to provide for the purchase of a perpetual canal option and ninety-nine-year leases on the Great and Little Corn Islands and a naval base site on the Gulf of Fonseca, the Senate delayed its approval until 1916, when the fear of German interest moved it to act in the affirmative.¹²²

Even before the ratification of the treaty the fact that the leaseholds implied an American protectorate in Nicaragua and that the treaty had been negotiated by a minority government aroused the protests of vocal groups in the United States and Nicaragua.¹²³ More serious was the bitter opposition of Costa Rica and El Salvador, who denounced the canal treaty on several grounds: that Nicaragua had alienated sovereignty over waters shared with them without their consent; that the treaty violated the neutrality of

¹²⁰ *New York Times*, August 3, 1913; *United States and Nicaragua. A Survey*, 29; Notter, *Policy of Wilson*, 212, 252-53, 256. Wilson approved Bryan's inclusion of the protectorate provision in the treaty (Adler, "Caribbean Penetration," *HAHR*, 215; *Outlook*, CIV (1913), 725).

¹²¹ *New York Times*, June 24, 1914; Adler, "Caribbean Penetration," *HAHR*, 214; Thomas A. Bailey, "Interest in a Nicaraguan Canal, 1903-1913," *HAHR*, XVI (1936), 8, hereafter cited as "Nicaraguan Canal," *HAHR*; Ham, "Americanizing Nicaragua," *ARR*, 186. There was some fear that the British might decide to build their own transoceanic canal in Nicaragua (Notter, *Policy of Wilson*, 252).

¹²² *United States and Nicaragua. A Survey*, 29; *New York Times*, February 15, 1916; Weitzel, "Policy in Nicaragua," *SD*, 9, 16. There was little real danger of a non-American power securing the Nicaraguan canal option (Bailey, "Nicaraguan Canal," *HAHR*, 12). Some of the Senate's delay was undoubtedly due to Wilson's fear of the opposition of Nicaragua's neighbors to the compact at a time when he was trying to raise the prestige of the United States in Central America (Notter, *Policy of Wilson*, 280; Adler, "Caribbean Penetration," *HAHR*, 217). For the text of the treaty, see *Papers Relating to the Foreign Relations of the United States, 1916* (Washington, D.C., 1925), 849-52, hereafter cited as *FR*, 1916.

¹²³ Adler, "Caribbean Penetration," *HAHR*, 215-17. While the American press generally approved of the Bryan-Chamorro Treaty (*Outlook*, CXIV [1914], 510; *Literary Digest*, XLVII [1913], 156), and the collector of the Customs actively lobbied for the Senate's approval (Ham, "Americanizing Nicaragua," *ARR*, 185), critics assailed the treaty on the grounds that it would increase American commitments in Central America and that it was opposed by the majority of Nicaraguans (*ibid.*, 482; Valentine, "Meddling with Neighbors," *Century*, 803, 807; Wicker, "Canal Is the Answer," *Century*, 16; Perry, "Anti-American Propaganda," *HAHR*, 33). Senator Elihu Root shared these misgivings and suggested that the Bryan-Chamorro Treaty should be resubmitted to a Nicaraguan government that was the result of free and fair elections (Jessup, *Root*, II, 251-52). The Nicaraguan Liberals (and Zelaya in exile) denounced the treaty as a violation of the Nicaraguan constitution, which forbade the alienation of the Republic's territory, and provoked a bitter struggle over its ratification in the Nicaraguan Assembly (Cyrus French Wicker, "Nicaragua and the United States," *Atlantic Monthly*, CXIX [1917], 683; hereafter cited as "Nicaragua and the United States," *AM*; Powell, "Relations," *HAHR*, 57).

Honduras as established by the Washington Treaty in 1907 and was unconstitutionally extorted from a "captive" government; that the extension of American influence made a Central American federation impossible and menaced the five republics; that the pact was designed to prevent rather than facilitate the construction of a transoceanic canal.¹²⁴

Wilson's assurances and the Senate's reservation that the treaty should not abridge the existing rights of Nicaragua's neighbors did not prevent Costa Rica and El Salvador from bringing suit in the Central American Court of Justice against Nicaragua.¹²⁵ When the Court in 1916 and 1917 rendered a decision rebuking Nicaragua and the United States for the pact, the Wilson administration made the error of ignoring the Court's verdict and encouraging Nicaragua's defiance on the grounds that the tribunal was abetting an attempt to prevent Nicaragua's fulfillment of contractual obligations.¹²⁶ The subsequent demise of the Court, which had been created under the sponsorship of the United States in 1907, provoked a lasting outburst of feeling in Latin America against American "imperialism" and seriously prejudiced the Pan-American movement.¹²⁷ Nor could the Central Ameri-

¹²⁴ On the protests and case of Costa Rica, El Salvador, and Colombia against the Bryan-Chamorro Treaty, see *FR*, 1913, 1021-34; *FR*, 1914, 170, 953-69, 1075; *Papers Relating to the Foreign Relations of the United States, 1915* (Washington, D.C., 1924), 1104-19; *FR*, 1916, 842-43; *FR*, 1917, 36, 1105; *Literary Digest*, XLVII (1913), 155; *North American Review*, CCIV (1916), 175; Notter, *Policy of Wilson*, 280; Cox, *Nicaragua*, 724-25; Powell, "Relations," *HAHR*, 57-58; Bailey, "Nicaraguan Canal," *HAHR*, 8-11; Mario Ribas, "A Central American Indictment of the United States," *Current History*, XXVI (1927), 920, hereafter cited as "A Central American Indictment," *CH*; Valentine, "Meddling with Neighbors," *Century*, 804; Buell, "Getting Out of Central America," *Nation*, 488; Carleton Beals, "Can the U.S.A. Flaunt Spanish-American Sentiment?" *American Scholar*, I (1932), 435, hereafter cited as "Spanish-American Sentiment," *AS*. Central American unionists (who were generally anti-American) believed that the "release" of Nicaragua from the canal treaty must precede Central American unity (Cox, *Nicaragua*, 741, 745, 747; Denny, *Dollars for Bullets*, 394).

¹²⁵ See *FR*, 1916, 849-52; Adler, "Caribbean Penetration," *HAHR*, 216; *Literary Digest*, XLVII (1913), 155; Charles E. Chapel, "Second Route to the Pacific? Nicaraguan Canal Again Agitated," *Christian Science Monitor Weekly Magazine* (April 6, 1938), 8-9.

¹²⁶ The Court refused to declare the treaty void because the United States was not subject to its jurisdiction, but ruled that the treaty violated the Cañas-Jérez Treaty of 1858 and the Central American Treaty of 1907 and threatened the security of El Salvador on the Gulf of Fonseca (*FR*, 1916, 811-98 ff.; *FR*, 1917, 1100-11; Bailey, "Nicaraguan Canal," *HAHR*, 12). In spite of the advice of Elihu Root and others, Lansing and Wilson ignored the Court's verdict (Jessup, *Root*, I, 512; Notter, *Policy of Wilson*, 497) on the grounds that the Central American treaties negotiated in Washington in 1907 did not affect the relations of any of the republics with the United States. In the light of this interpretation, the Wilson administration refused to recognize the jurisdiction of the Central American Court of Justice (*United States and Nicaragua. A Survey*, 31; Cox, *Nicaragua*, 727; Adler, "Caribbean Penetration," *HAHR*, 215). Callcott asserts that the Wilson administration was motivated by a reluctance to give up the right to any potential naval base sites at a time when the European situation was so threatening to American security (Callcott, *Caribbean Policy*, 390).

¹²⁷ Bemis, *Latin American Policy*, 189; Powell, "Relations," *HAHR*, 61; Cox, *Nicaragua*, 738; *North American Review*, CCIV (1916), 176-77. On the reaction in Latin America, see

can unionists, in particular, forget that Nicaragua had wrecked the proposed Central American Confederation in 1921 by insisting that the Confederation accept the validity of the Bryan-Chamorro Treaty.¹²⁸

American armed intervention in Nicaragua after 1926 again raised the question of the construction and control of a Nicaraguan canal. Coolidge's ill-advised attempt to justify intervention by emphasizing the necessity to defend American rights under the Bryan-Chamorro Treaty and the Senate's renewed interest in a second transoceanic canal in 1927 and 1928 appeared to confirm the charges of the critics of the treaty in Latin America.¹²⁹ The canal survey of the United States Army Engineers from 1929 to 1931 enthusiastically recommended the construction of a Nicaraguan canal, but the fears that the survey excited in Latin America and the world depression impelled the Interoceanic Canal Board and Congress to defer the building of a second canal.¹³⁰

Nor did the Navy Department's decision in 1932 that a naval base on the Gulf of Fonseca was not essential to American security¹³¹ and the final withdrawal of the marines from Nicaragua dissipate Latin-American distrust of

Bailey, "Nicaraguan Canal," *HAHR*, 28-29; Alvarez, *The Monroe Doctrine and the New World*, 243; Ribas, "A Central American Indictment," *CH*, 920; Wicker, "Nicaragua and the United States," *AM*, 684; Adler, "Caribbean Penetration," *HAHR*, 215; Beals, "Spanish-American Sentiment," *AS*, 436-37. Wilson's defiance of the Central American Court undoubtedly played into the hands of German propagandists in Latin America during the First World War and contributed to the hostility of some of the Latin-American nations at the Paris Peace Conference in 1919 (Perry, "Anti-American Propaganda," *HAHR*, 39; Cox, *Nicaragua*, 742).

¹²⁸ *New York Times*, December 2, 1921; Sáenz, "'Peaceful Penetration,'" *CH*, 917.

¹²⁹ American naval and army officers, shippers, manufacturers of construction equipment, civil engineers, and the Nicaraguan government lobbied for the canal (Bailey, "Nicaraguan Canal," *HAHR*, 21), and their spokesman in the Senate was Senator Walter E. Edge of New Jersey, chairman of the Interoceanic Canals Committee (see Walter E. Edge, "Practical Relations with Latin America," *AAAPSS*, CXXXVIII [1928], 66, 68; Bailey, "Nicaraguan Canal," *HAHR*, 15-17, 25-27; Denny, *Dollars for Bullets*, 394; Wicker, "Canal Is the Answer," *Century*, *passim*). Coolidge and Hoover also appeared to favor the construction of a new canal (cf. *New York Times*, March 31, 1927, and November 28, 1928). A joint resolution calling for an appropriation for a new survey of the Nicaraguan canal route was held up in Congress until March, 1929, because of regional opposition and the fear that the survey might be used to prolong the stay of the marines in Nicaragua (Bailey, "Nicaraguan Canal," *HAHR*, 18).

¹³⁰ See *New York Times*, June 15 and September 1, 1929, and December 17, 1931. The Interoceanic Canal Board reported its approval of the Army's survey to Congress in December, 1930, but recommended the less expensive construction of a third set of locks for the Panama Canal (*Report of the Interoceanic Canal Board* [Washington, D.C., 1932], 18, 31; *United States and Nicaragua. A Survey*, 113-14). The reports of the Managua earthquake in 1931 may have influenced the Board's decision (*New York Times*, April 10, 1931).

¹³¹ In an unpublished letter to the Department of State sometime in 1932, the Navy Department declared that "except in time of war" it would have no interest in the Gulf of Fonseca (notes of a conversation between the author and Gordon S. Reid, Department of State, Washington, D.C., September 17, 1952, and letter of Reid to the author, October 23, 1952. Italics are mine).

the continued existence of the Bryan-Chamorro Treaty.¹³² Latin Americans, and many Nicaraguans, continued to frown upon the construction of a Nicaraguan canal by the United States unless the existing treaty was either converted into a co-operative Central American agreement or revised to provide for the construction, fortification, and administration of a canal as a Pan-American project.¹³³ The Bryan-Chamorro Treaty was thus not worth the antagonism and ill feeling that it engendered.¹³⁴ Monopoly without good will could not guarantee the strategic security of the Isthmian canal routes.

In retrospect, while the defensive policy of supervision and active interference in Nicaragua succeeded in protecting the lives and property of American citizens and averting the intervention of non-American powers in the vital Isthmian region, the results were not worth the price paid. The primary objective—security—was not completely attained because the hatred of so-called "yanqui imperialism" that unilateral intervention provoked actually tended to frighten at least the anti-American elements into the arms of hostile non-American states. Unilateral intervention in Nicaragua did not work to the advantage of the United States because it exposed the United States to the odium of such action by refusing to consult or enlist the co-operation of the Latin-American republics. Thus, the strategic interests of the United States were best advanced only after the policy of unilateral political intervention had been replaced by one that emphasized the sharing of hemispheric responsibilities with nations of the inter-American family. In the face of the present Soviet threat in the Western Hemisphere, it is to the best interests of the United States that such a policy continue and that the lessons of the Nicaraguan episode never be lost to American statesmen.

¹³² Bailey, "Nicaraguan Canal," *HAHR*, 28-29; Buell, "Getting Out of Central America," *Nation*, 488; Beals, "Spanish-American Sentiment," 441-42. The above-mentioned decision of the Navy has in no way affected the present status of the Bryan-Chamorro Treaty (letter of Gordon S. Reid, Department of State, to the author, October 23, 1952).

¹³³ By 1934, Nicaraguans were complaining that the canal treaty had not benefited Nicaragua and were talking of dispatching a commission to Washington to secure a revision of the treaty (*New York Times*, July 24 and November 7, 1934). In spite of the revival of interest in a Nicaraguan canal and an Export-Import Bank loan of \$2,000,000 in 1939 for the "canalization" of the San Juan River for shallow-draft boats, Nicaraguans continued to accuse the United States of tying up the canal route to the detriment of their prosperity. To console the Nicaraguan government, Franklin D. Roosevelt pledged \$2,000,000 for the construction of a highway to connect the Caribbean and Pacific coasts of Nicaragua (*Inter-American Monthly*, II [1943], 43; Lawrence and Sylvia Martin, "World's Most Unbuilt Canal," *Antioch Review*, III [1943], 263, 269). However, the appropriation was not made by Congress until 1951. On other aspects of the problem, see Buell, "Getting out of Central America," *Nation*, 488; *Inter-American Monthly*, II (1934), 42-43; Beals, "Spanish-American Sentiment," *AS*, 442-43. As early as 1915, certain American publicists were urging the United States to either revise or reinforce the Bryan-Chamorro Treaty by additional agreements with Nicaragua's neighbors in order to gain their good will (*North American Review*, CCIV [1916], 177; Wicker, "Nicaragua and the United States," *AM*, 685).

¹³⁴ Bailey, "Nicaraguan Canal," *HAHR*, 13; Beals, "Spanish-American Sentiment," *AS*, 442.

Income Determination¹

REGINALD RUSHING

TEXAS TECHNOLOGICAL COLLEGE

THE INCOME STATEMENT is said to have had about five hundred years of evolution.² Until recently, the balance sheet was considered the primary financial statement. Today the income statement is given more attention than any other financial statement. Its importance is partially derived from the conflict in interests of management, stockholders, creditors, the government, workers, and customers, all of whom are vitally interested in net income and its proper determination. The purpose of this paper is to discuss how the income statement may be presented so as to give the greatest information possible to the conflicting interests.

Before getting into the problem of income-statement presentation, let us consider what income is. It has been defined by the Committee on Terminology of the American Institute of Accountants³ as "the gain derived from capital, from labor, or from both combined, provided it be understood to include profit gained through a sale or conversion of capital assets."

Any income statement should have as its objective that of being of the greatest use to its readers. This objective could perhaps best be accomplished by giving the most information possible in the income statement while restricting the data to pertinent material. The inclusion of information not necessary to the objective detracts from the usefulness of the statement.

One of the difficulties in accounting for income and the preparation of an income statement is that accountants and those who use the income statement have conflicting views as to what should be included in the determination of income. Some take the view that corporations, by various devices, mislead the public concerning the income of the company. Stanley H. Ruttenberg, for example, says that "during recent years when corporate profits have been running at their highest levels compared to other years, many efforts have been made to convince the public that profits are not as high as they actually are."⁴ An illustration of such misrepresentations, ac-

¹ This paper was read before the Southwestern Social Science Association, Accounting Section, at the annual meeting in Dallas, Texas, April 16-17, 1954.

² M. C. Conick, "The Nature of the Income Statement," *New Developments in Accounting* (New York, The American Institute of Accountants, 1946).

³ Special Bulletin No. 9 (*Eisner v. Macomber*, 252 U. S. 189).

⁴ "Labor Views of Financial Statements," *Proceedings of the Second Annual Accounting Conference, Agricultural and Mechanical College of Texas, College Station, Texas, 1949.*

According to Ruttenberg's article, could be found in the third quarterly report (1945) of the Bethlehem Steel Corporation. Bethlehem reported a loss of \$27,218,000 by using the wartime accelerated amortization of new plant and equipment, in which corporations were allowed to charge off in the last year of the war any undepreciated amount necessary to complete five years' write-off. As the result of the reported loss, the company was to receive a refund from the Treasury Department of \$34,980,000, and so the company showed a net operating profit of \$7,761,000. If the company had reported in the income statement depreciation at its usual rate, it would have had an actual profit of \$22,676,000 from operations, and after adding the refund of \$34,980,000, it should have reported a profit of \$57,656,000. A contra view to the above criticism of the income statement of Bethlehem Steel Corporation might be that, since the writer of the criticism evidently had from the report sufficient information to work out an adjusted profit figure based on a different procedure of applying depreciation, the statement gave him the information needed for his purposes.

The idea that a true and accurate statement of income can be prepared is negated by the certification of the C.P.A. in which he certifies that the financial statements "present fairly" the financial position of the company and the results of its operations for the period then ended. Many who read income statements do not know of the limitations under which the person preparing the statement is working. The depreciation included as a charge against income is admittedly an estimate, as is the adjustment for bad debts. Until the fixed asset is completely depreciated and the accounts have been collected or found to be bad, these two factors which affect the income statement are subjectively determined and are subject to the bias of the person determining the charges. It is true that the charges may be based on prior experience, but who can say that an average of prior experience will be realized in the future? This is not to say that the adjustments should not be made, but the limitations under which the accountant is working should be recognized.

There are primarily two theories concerning the coverage of the income statement. These theories of coverage are divided between those who are in favor of the "all-inclusive" statement and those who advocate the "current operating-performance" type of statement. Since the viewpoint taken is vital in the construction of the income statement, the pros and cons of each type of statement need deliberate consideration.

The all-inclusive income statement ties in with the "clean-surplus" concept that has been advocated by some accountants, but without exactly the same end result in mind. The clean-surplus advocates think the capital accounts should not be cluttered up with entries that can be summarized in a

temporary or nominal account. Carrying out this theory fully would result in the all-inclusive income statement.

Those who favor the all-inclusive income statement think that since the income statement is referred to by the public more frequently than is any other statement, the series of income statements of the company covering its history should include all company gains and losses of an income nature. If some gain or loss transactions are carried directly to surplus, the readers of the income statement may never know of these transactions, and a vital part of the over-all earning power of the company will not be known. Advocates of the all-inclusive income statement have no objection to an income statement that will show current earning power, but they think that in preparing such a statement, the long-run effect of business operations should not be lost sight of.

Proponents of the all-inclusive income statement also point out that when extraordinary items are excluded from the determination of income, the determination of the items to be so excluded is to some extent a subjective procedure. As a result, items may be excluded in some cases that should not be excluded, or included in income when they should have been excluded, thus making the income statement subject to distortion as the result of human error or bias. They hold that the inclusion or exclusion of items may depend upon the effect that the person preparing the income statement wishes to produce. They object to the current operating-performance statement on the grounds that if the users of such statements are depending upon them in forecasting earnings for the future of a particular enterprise, such statements will be of only limited help. In their opinion, nonrecurring and extraordinary events are a part of the earnings history of the company and need to be taken into consideration in order to make the most intelligent and meaningful estimate of the concern's earning power. They point out also that over a period of years, charges from extraordinary items tend to exceed credits for such items, and if extraordinary items are omitted from a study of income, a greater earning power would be indicated than actually existed for the concern under study.⁵ Anyone trained in security analysis would consult the earned-surplus statement along with the income statement and thus would not overlook items excluded from the income statement, but the individual untrained in accounting might not realize the necessity for studying the surplus statement also. To the extent that the average investor relies upon the advice of a competent investment analyst, the above criticism would not be valid.

⁵ *Restatement and Revision of Accounting Research Bulletins, Accounting Research Bulletin No. 43* (American Institute of Accountants, 1953), 60; cited hereafter as *Accounting Research Bulletin No. 43*.

The American Accounting Association apparently is in favor of the all-inclusive income statement. In its "Accounting Concepts and Standards Underlying Corporate Financial Statements"⁶ it stated:

(9) The income of an accounting period should be reported in a statement providing an exhibit of all revenue and expense (including losses) given accounting recognition during that period. This practice assures that the income statements for a period of years will disclose completely the entire income history of that period.

(10) The income statement should be arranged to report consistently and in reasonable detail the particulars of revenue and the expense pertaining to the operations of the current period, measured as accurately as is possible at the time the statement is prepared and also any items of revenue or expense not associated with the operations of the current period. Such arrangement of data in a single statement discloses both the earning performance and the entire income history of the enterprise during a given period.

This treatment of the income statement by the American Accounting Association is in line with the Association's definition of income in the same article:

The income of an enterprise is the increase in its net assets (assets less liabilities) measured by the excess of revenue over expense. The income of a corporation is not affected by the issuance, acquisition, or retirement of the corporation's own capital shares, adjustments of stockholders' interests, or dividend distributions by the corporations.

A footnote adds that it is recognized that claims or obligations arising out of revenue or expense transactions are occasionally settled by transfer or receipt of the corporation's own capital stock.

An example of a recently issued income statement showing the effect that extraneous transactions may have on net income is reproduced in Table 1. It is not considered the "typical" all-inclusive statement but is reproduced to show the possible effect on income of the inclusion of extraordinary items in the income statement.

Those who favor the current operating-performance type of income statement apparently do so on the theory that this statement will be used by prospective investors in estimating the future earning power of the concern being studied. They point out that management and the independent auditors who prepare the statements are in a better position than outsiders to decide which items are nonrecurring or extraordinary and which might therefore mislead the reader of the income statement as to the true picture

⁶ Statement issued by the Executive Committee of the American Accounting Association, June, 1948.

of the concern's earnings. While advocating that the income statement contain only current operating items, they favor full disclosure of all material charges or credits of nonrecurring or extraordinary nature. This disclosure could be obtained by placing these charges and credits in an analysis of surplus. It is recognized that one year's earnings of a company are only one of many factors to be used in estimating future earnings, but if the statement is to be used, it should be as meaningful as possible.

TABLE 1

CALLAHAN ZINC-LEAD COMPANY

Statement of Profit and Loss for the Year Ended December 31, 1953	
Sales	\$679,489.52
Profit on sale of stock of subsidiary	242,146.85
Miscellaneous income	2,592.44
	<hr/> \$924,228.81
Operating expenses	\$587,695.77
General, administrative, and selling expenses	219,114.33
	<hr/> \$117,418.71
Depreciation and amortization	8,824.54
	<hr/> \$108,594.17
Net profit for the year before Special Charge shown below	\$108,594.17
Special Charge as a result of writing down investment in Livengood Placers, Inc., to \$1.00 and recording con- tingent liability under agreement with RFC*	790,821.66
	<hr/> \$682,227.49
Net loss for year 1953 after Special Charge	\$682,227.49

* RFC has listed the physical assets at Livengood as available for sale. Since proceeds of sale are most unlikely to be sufficient either to entitle Livengood Placers, Inc., to any participation or to reduce the \$150,000 contingently payable to RFC by Callahan under the December 8, 1949, agreement with RFC, the Livengood investment has been written down to \$1.00 and the reserve for contingencies has been increased by \$150,000 plus interest thereon at 2 per cent.

The American Institute of Accountants at first tried to present both viewpoints to its readers and, though insisting on full disclosure, did not express a preference for either type of income statement. After much discussion of the conflicting views had appeared in print, the American Institute finally recommended what appears to be an indorsement of the current operating-performance type of income statement:⁷

It is the opinion of the committee that there should be a general presumption that all items of profit and loss recognized during the period are to be used in determining the figure reported as net income. The only possible exception to this presumption relates to items which in the aggregate are material in relation to the company's net income and are clearly not identifiable with or do not result

⁷ *Accounting Research Bulletin No. 43*, pp. 63-64.

from the usual or typical business operations of the period. Thus, only extraordinary items such as the following may be excluded from the determination of net income for the year, and they should be excluded when their inclusion would impair the significance of net income so that misleading inferences might be drawn therefrom:

(a) Material charges or credits (other than ordinary adjustments of a recurring nature) specifically related to operations of prior years, such as the elimination of unused reserves provided in prior years and adjustments of income taxes for prior years;

(b) Material charges or credits resulting from unusual sales of assets not acquired for resale and not of the type in which the company generally deals;

(c) Material losses of a type not usually insured against, such as those resulting from wars, riots, earthquakes, and similar calamities or catastrophes except where such losses are a recurrent hazard of the business;

(d) The write-off of a material amount of intangibles;

(e) The write-off of material amounts of unamortized bond discount or premium and bond issue expenses at the time of the retirement or refunding of the debt before maturity.

Certain items, however, should never be included in the determination of income: adjustments from transactions in the company's own stock, surplus appropriations, amounts resulting from excessive costs of fixed assets and annual appropriations in contemplation of replacement of productive facilities at higher levels, and quasi-reorganizational adjustments.

Sam M. Woolsey of the University of Texas has investigated how accountants decide upon materiality, that is, when is an item material?⁸ Out of 117 responses to questionnaires that he mailed, 83 seemed to have a definite basis for a decision as to materiality. Eleven per cent of the 83 gave primary consideration to actual amounts, 75 per cent regarded relative amounts more important, and the remainder considered both factors. These answers concerned the treatment of earthquake losses. Eighty-four of the 117 based their decision concerning materiality on the ratio of the earthquake loss to current income. In general, the result of the study indicated, among other things, that 10 per cent was the weighted over-all average that was the dividing line as to materiality.

More work evidently needs to be done on this subject. Prevailing practice, though it may be some indication of proper procedure, is not necessarily indicative of best procedure. While personal judgment is available for the accountant to make his own decision as to materiality, it seems that the American Institute of Accountants could develop some standard for measuring materiality. One of Woolsey's exhibits indicated that the decision as

⁸ "Development of Criteria to Guide the Accountant in Judging Materiality," *Journal of Accountancy* (February, 1954), XCVII, 167-73.

to whether an item was material or not varied from 5.5 per cent to 18.4 per cent of net income. This appears to be a great variation in opinion among those answering the questionnaires.

In addition to the type of income statement to be prepared are many other matters vital in the proper determination of income. All of them cannot be considered, but perhaps the more important are the determination of the depreciation charge to be shown in the income statement and also the procedure to be used in determining inventories.

The prevailing practice is, of course, to base the depreciation charge on cost. Since values have changed radically in some cases since the fixed assets were purchased, it is evident that the charge in the income statement is not equal to the fixed asset depreciated if market value is considered. W. A. Paton⁹ expressed the view that the income statement is made up of heterogeneous elements and cannot therefore adequately indicate a net income figure that is meaningful. In his opinion the change in the purchasing power of the dollar should be recognized. He does not advocate getting away from cost but says he would adjust cost by use of index numbers to obtain homogeneous units to use in arriving at net income. He apparently is not greatly concerned as to what index should be used, but if a Consumer Price Index was used, in his opinion, meaningful results could be obtained. He does not think comparative statements will show true trends unless the various statements are adjusted for the change in the purchasing power of the dollar.

Paton also mentioned the editorial in a recent issue of the *Saturday Evening Post* in which George Terborgh, research director of the Machinery and Allied Products Institute, is said to have made an estimate of the effect of underdepreciation on the ability of the American industry to function at top efficiency. Terborgh estimated that the increased charge to American industry, if depreciation was based on present value of assets depreciated, would be about \$7,000,000,000 a year. In the opinion of many, this is the same as saying American industry has overstated its profits \$7,000,000,000 a year.

The American Accounting Association would meet the problem of depreciation by having supplemental statements prepared in addition to the regularly prepared statements. These supplementary statements would show management and others interested the effect on profits if depreciation was figured on current fixed-asset values. Depreciation in the regularly published statements would continue to be based upon costs, but the supplementary statements would give management the information it needs. It is obvious that unless additional capital is to be raised later, management must retain

⁹ Address before Accounting Conference, Agricultural and Mechanical College of Texas, College Station, Texas, April 9, 1934.

earnings at least equal to the depreciation on the increased fixed-asset values, if assets are to be accumulated equal in amount to the asset to be replaced.

The American Institute of Accountants has said that depreciation should continue to be computed on the basis of costs but has not made any particular contribution toward solving the problem of accumulating funds to replace the assets being depreciated. It apparently takes the view that management should be considered sufficiently well informed to know that proper provision must be made for replacement of depreciated assets.

American industry within recent years has frequently selected the procedure of determining inventory based upon the tax effect of its inventory determination. Many have adopted the LIFO method with the view that in a period of rising prices, the profit obtained when this method is used would tend to be less than if FIFO, for instance, was used. Although the effect on income over a number of years will average itself out once a procedure for determining inventories is decided upon, in the year of the change it may have a marked effect on income, and, if so, the change in income should be fully disclosed.

An example of the effect that a change in inventory procedures may have on income is shown in the statement of the Allied Kid Company for the six months ended December 31, 1951. In its original statement of income, using the LIFO method, the company showed a profit, before reserves and taxes, of \$266,843. When the statement of income was redetermined by using the former method of determining inventories (which the company believed permissible for tax purposes), a loss, before reserves and taxes, of \$534,667 was obtained. The company should select the process of inventory determination that will be best for itself, but in any change in inventory procedures, full disclosure should be made of the effect of such change, as was done by the Allied Kid Company. A copy of the company's report concerning the change in inventories follows:

ALLIED KID COMPANY

APRIL 1, 1952

TO THE STOCKHOLDERS OF ALLIED KID COMPANY:

Change in Inventory Method:

In reporting to you the operating results for the fiscal year ended June 30, 1951 and the six months ended December 31, 1951, the Company used the LIFO (Last In, First Out) method of valuing part of its inventories. As explained on page 4 of the Annual Report, this valuation was equivalent to the cost of the skins and hides we owned on June 30, 1950.

When it was decided to use LIFO, it was thought that the base prices—that is, cost at June 30, 1950—were reasonably low in view of the value of the dollar and of the price levels for other commodities. This proved to be wrong. On December 31, 1951, as stated in the "Inventory Note" on the Semi-Annual Report,

TABLE 2

Allied Kid Company—Summary of Operations

	Year Ended June 30, 1951		Six Months Ended December 31, 1951	
	Restated on Method Used		Restated on Method Used	
	Originally Reported on LIFO Method	Prior to June 30, 1951	Originally Reported on LIFO Method	Prior to June 30, 1951
Total gross income	\$20,091,525	\$20,091,525	\$8,132,785	\$8,132,785
Cost of products sold	16,665,294	16,259,865	7,087,672	7,889,182
Other expenses	1,835,071	1,835,071	778,270	778,270
Total costs and expenses	18,500,365	18,094,936	7,865,942	8,667,452
Profit before reserve and taxes . .	1,591,160	1,996,589	266,843	534,667 Loss
Reserve for inventory—increased .	.....	225,000	.....	.....
Reserve for inventory—decreased .	.....	.....	.....	525,000
Profit after reserve, before taxes .	1,591,160	1,771,589	266,843	9,667 Loss
Provision for federal taxes . . .	690,000	900,000	135,000	.....
Federal tax refundable . . . . .	.....	.....	.....	250,000
Net profit after reserve and taxes .	\$ 901,160	\$ 871,589	\$ 131,843	\$ 240,333

Status of Inventory Reserve

Allowance for Possible Future Price Declines on Raw Skins and Hides	
<i>June 30, 1951</i>	
Balance per Balance Sheet as originally reported	\$650,000
Reserve increased, as above	225,000
Adjusted balance	875,000
<i>December 31, 1951</i>	
Reserve decreased, as above	525,000
Adjusted balance	\$350,000

the LIFO inventory was \$350,000 above the then market. Since December 31 there have been further declines, so that if the Company had continued to value its inventories on the LIFO basis the inventories would have been considerably overstated and the profits correspondingly distorted.

Ordinarily the LIFO method of inventorying, once established for tax purposes, cannot readily be changed. However, because of special circumstances resulting from the retroactive changes in the tax laws for the calendar year 1951, the due date for the filing of the final tax return for the fiscal year was extended to March 15, 1952. Therefore, according to the Company's understanding of the tax laws, it is permissible to abandon LIFO and resume the former method of pricing inventories. Amended tax returns have now been filed with inventories stated at the lower of cost or market.

Attached hereto is a memorandum showing the operating results for the year and for six months as originally reported on the LIFO method and as restated on the former method of inventory valuations. As in the past, adjustments have been made in the Inventory Reserve which result in stating the profits on a replacement basis.

Registration with Securities and Exchange Commission:

On behalf of the Executors of the Estate of Florence M. Agoos and at their expense, the Company has registered with the Securities and Exchange Commission 25,000 shares of Allied Kid Company stock to be sold to certain underwriters. It is the Company's understanding that the Executors are selling this stock primarily to provide funds for the payment of taxes and legacies. No part of the proceeds of the sale is for the benefit of the Company.

ALLIED KID COMPANY

By BENJAMIN SIMONS, *President*

Veblen's Naturalism *versus* Marxian Materialism

ERNEST W. DEWEY and DAVID L. MILLER
UNIVERSITY OF TEXAS

Introduction

ALTHOUGH no student of economics the world over fails to consider Marxism and its possible influence on our contemporary economy, few Americans and fewer English economists know Thorstein Veblen well, and he is virtually unknown in Continental Europe and the rest of the world. Veblen had practically no followers until near the end of his career in 1929, just before the great crash in the stock market, but since his death there has been increasing interest in his criticism of the price system supported today by capitalism.

Offhand, it seems natural to conclude that Veblen and Marx offer the same criticism of capitalism, namely, that capitalism contains a conflict of the forces of production. Many conclude that Veblen, like Marx, is in principle a thoroughgoing crass materialist and that the economic theories of these men emerge from the same philosophic roots. We intend to show that such is not the case, that Veblen is not a Marxian materialist, that he does not employ the Hegelian dialectic as a method of explaining economic processes, and that Veblen believes individual men are purposeful, that their purposes make the economic processes teleological, in contrast to the Marxian view that all of history can be interpreted in terms of impersonal, despiritualized, nonteleological material forces over which, finally, men have no control. Whereas orthodox economists attribute the profits of high finance to the management of the entrepreneurial genius, and Marx attributes them to the product of labor, Veblen believes that science and technology are the more essential causes of the tremendous surpluses and possible profits.

Both Veblen and Marx believe that the seeds of capitalistic disintegration are contained within the internal stresses and strains of the system itself. Both view the technological or productive forces of society as the ultimately molding or determinative causes of social movement and change. Both share a "scientific outlook," that is, the rejection of "supernaturalism" for a mat-

ter-of-fact approach in the explanation of experiential phenomena. Such affinities in approach and conclusions have led some to infer that there remains little significant difference between the views of these two intellectual radicals.¹ Max Lerner even goes so far as to suggest that Veblen's own criticisms of Marx and Marxism were due perhaps in part to a feeling of necessity to maintain what academic standing he had attained: "No one who reads Mr. Dorfman's book, with its story of the bitterness of Veblen's life until he succeeded in getting some small academic foothold, can wonder that even when his own thought was closest to the Marxian categories he chose to clothe them in other terms."²

Obviously there is room for comparison of Marx and Veblen, but in the fundamental assumptions and attitudes of these two revolutionaries are discrepancies that can never be reconciled. It is with these basic similarities and differences that we are concerned here. Although this article is not intended to be an exposition of economic concepts or policies, it is intended to be a discussion of the fundamental metaphysical and methodological commitments of Veblen in relation to those of Karl Marx, and to restrict the examination to the philosophical commitments in so far as that is possible. Discussion of economic analysis is incidental to the main argument and is introduced only for purposes of illustration.

Dialectic versus Cumulative Causation

Abram Harris makes the statement that "like Marx, Veblen was a critic and historian of capitalism."³ Within this short statement is compressed the superstructure for misconceptions. It is true that Marx is a critic and historian of capitalism, but Veblen is much more than this. Although the battery of his categories of analysis is turned most devastatingly on current economic and social policies, his approach is not limited to one phase of man's history but is designed to explain community development in general. Marx's economic analysis, though in line with the classical tradition, was inspired by a socialist zeal for institutional change. He differs from classical thought in that he sees economics as an evolutionary science, with "laws" applicable for only a limited time. With the exception of that of John Stuart Mill, classical economic thought has been concerned with the discovery of eternal universal laws. Marx uses such classical economic theories, developed in support of capitalism and the capitalistic class, to support his

¹ See especially chapter v, "Professor Veblen," in Henry L. Mencken, *Prejudices* (first series, New York, Alfred A. Knopf, 1919), 59-82. See also Abram L. Harris, "Veblen as Social Philosopher," *Ethics* (April, 1953), LXIII, No. 3, Part II, 1-32, cited hereafter as "Veblen as Social Philosopher"; Richard V. Teggart, *Thorstein Veblen: A Chapter in American Thought* (Berkeley, University of California Press, 1932), 52, 63, 68-69, 73-74, 114.

² *Ideas Are Weapons* (New York, The Viking Press, 1936), 131.

³ "Veblen as Social Philosopher," 1.

theoretical defense of the demands of the laboring class.⁴ But his theory of historical development is limited to *class* society; it is not applicable to *all* societies and institutions. Marx finds the source of social change in the forces of production. These he conceives of as fundamentally and resolutely in conflict with economic phenomena or relations of production in the current stage of society. The classical economists had conceived of exchange within the capitalistic economy as essentially a "commodity-money-commodity" transaction, that is, commodities produced and exchanged for money in order to purchase other commodities. Marx points out that this is simply not the case. Capitalism is actually a M_1-C-M_2 economy where C (the commodity) is the medium of exchange, and the aim is not to acquire commodities but to so complete the transaction as to make M_2 exceed M_1 by some amount (ΔM).⁵ In other words, Marx explains that the goal of capitalistic enterprise is profit-making or capital accumulation. He discards the classical concepts of "postponed consumption," "abstinence," etc. The continued existence of capitalism depends on maintaining these value-and-wage-determining processes in a relationship conducive to capital accumulation. He believes that inherent in these relations, however, are internal inconsistencies and inevitable consequences detrimental to general human welfare. The result is the division of modern society into two classes with irreconcilable economic interests. And although "the history of all hitherto existing society is the history of class struggles," Marx sees that "our epoch of the bourgeoisie possesses, however, this distinctive feature: it has simplified the class antagonisms. Society as a whole is more and more splitting up into two great classes directly facing each other—bourgeoisie and proletariat."⁶

The ultimate and inevitable resolution of this class conflict Marx sees in the classless society of pure communism. It is this inevitability and the de-

⁴ Marx used Locke's labor theory to condemn private property. He used Smith's equating of exchange value to labor cost as the basis of his charge of exploitation; this, coupled with Senior's argument against a shorter working day, furnished the basis for his concept of surplus value; and the absolute oversupply of labor put forth by Malthus, Marx modifies to a relative oversupply arising in competition between the labor force and substitutes for labor. Veblen, noting Marx's classical ties, says: "The system of doctrines worked out by Marx is characterized by a certain boldness of conception and a great logical consistency. Taken in detail, the constituent elements of the system are neither novel nor iconoclastic, nor does Marx at any point claim to have discovered previously hidden facts or to have invented recondite formulations of facts already known; but the system as a whole has an air of originality and initiative such as is rarely met with among the sciences that deal with any phase of human culture."—Thorstein Veblen, *The Place of Science in Modern Civilization* (New York, B. W. Heubusch, 1919), 409. Cited hereafter as *Place of Science*.

⁵ Karl Marx, *Capital, A Critique of Political Economy* (Chicago, Charles H. Kerr & Co., 1909). Trans. from the first German edition Ernest Untermann, II, 53–54.

⁶ Karl Marx and Frederick Engels, "The Communist Manifesto," reprinted in W. N. Loucks, and J. W. Hoot, *Comparative Economic Systems* (New York, Harper and Brothers, 1948), 764.

terminated relationship between social order and forces of production that are the basis of the divergence between Marx and Veblen. Marx sees institutions and values as being absolutely determined by the level and stage of development of man's productive instruments:

What is society, whatever its form may be? The product of men's reciprocal action. Are men free to choose this or that form of society for themselves? By no means. Assume a particular state of development in the productive forces of man and you will get a particular form of commerce and consumption. Assume particular stages of development in production, commerce and consumption and you will have a corresponding social structure, a corresponding organisation of the family, of orders or of classes, in a word, a corresponding civil society. Presuppose a particular civil society and you will get particular political conditions which are only the official expression of civil society.⁷

The distinguishing feature of the Marxian dialectic of thesis, antithesis, and synthesis and Marxian economic determinism, which receives Veblen's criticism and accentuates their divergent positions, is Marx's failure to reconcile the materialistic and spiritual,⁸ the determinant and indeterminant aspects of man's world of experience. Marx is guilty of the same metaphysical fallacy as Hegel. Hegelian materialism differs from Hegelian orthodoxy, says Veblen, "by inverting the main logical sequence, not by discarding the logic or resorting to new tests of truth or finality."⁹ Where Hegel pronounces his dictum "*Das Denken ist das Sein*," Marx would substitute "*Das Sein macht das Denken*." In both cases, however, the creative primacy assigned to one or the other member of the complex is much the same, "and in neither case is the relation between the two members a causal relation."¹⁰ In the case of Marx, the spiritual is merely the reflection of the material:

In acquiring new productive forces men change their mode of production; and in changing their mode of production, in changing the way of earning their living, they change all their social relations. The hand-mill gives you society with the feudal lord; the steam-mill, society with the industrial capitalist.¹¹

The movement or progress in both Hegelian and Marxian theories is a gradual advance toward a goal; it is a development or realization in explicit

⁷ Karl Marx, "Letter from Marx to P. V. Annkov" (dated "Brussels, December 28, 1846"), reprinted in Appendix (Collected Letters and Addresses) of Karl Marx, *The Poverty of Philosophy* (New York, International Publishers, 1936), 152. Cited hereafter as *Poverty of Philosophy*.

⁸ By "spiritual" we refer to what man thinks, the mental side of experience. This is the sense in which Veblen used the term in similar context.

⁹ Veblen, *Place of Science*, 414.

¹⁰ "In the materialistic conception man's spiritual life—what man thinks—is a reflex of what he is in the material respect, very much in the same fashion as the orthodox Hegelian would make the material world a reflection of the spirit." *Ibid.*

¹¹ Karl Marx, *Poverty of Philosophy*, 92.

form of all that is implicit in the substantial activity of the present. In both, the movement is conceived of as the self-conditioned and self-acting unfolding of inner necessity, rendering future prediction in terms of certainty merely a matter of accountancy. Such a view of the universe is simply outmoded, says Veblen:

Of the two postulates of earlier modern science,—the quantitative equivalence and the qualitative equivalence of cause and effect,—the former has come practically to signify the balanced articulation of the process of cumulative change; the endeavor of the Positivists to erect this canon of quantitative equivalence into the sole canon of scientific truth, and so to reduce scientific theory to a system of accountancy, having failed. The latter thesis, that like causes produce like effects, or that the effect is, in some sense, of the same character as the cause, has fallen into decay as holding true only in such tenuously general terms as to leave it without particular force.¹²

According to Veblen, the basic inconsistency of Marx arises from a basic metaphysical fallacy. In the Marxian system the dialectical movement becomes the class struggle, and although the class struggle is conceived to be "material," the term "material" can be considered only in a metaphorical sense. It does not mean mechanical, physical, or even physiological; it means economic; it is material "in the sense that it is a struggle between classes for the material means of life."¹³ Thus Veblen says:

The dialectic of the movement of social progress, therefore, moves on the spiritual plane of human desire and passion, not on the (literally) material plane of mechanical and physiological stress, on which the developmental process of brute creation unfolds itself. It is a sublimated materialism, sublimated by the dominating presence of the conscious human spirit, but it is conditioned by the material facts of the production of the means of life. The ultimately active forces involved in the process of unfolding social life are (apparently) the material agencies engaged in the mechanics of production; but the dialectic of the process—the class struggle—runs its course only among and in terms of the secondary (epigenetic) forces of human consciousness engaged in the valuation of the material products of industry. A consistently materialistic conception, consistently adhering to a materialistic interpretation of the process of the development as well as of the facts involved in the process, could scarcely avoid making its putative dialectic struggle a mere unconscious and irrelevant conflict of brute material forces. This would have amounted to an interpretation in terms of opaque cause and effect, without recourse to the concept of a conscious class struggle, and it might have led to a concept of evolution similar to the unteleological Darwinian concept of natural selection.¹⁴

Veblen thinks the fault of Marx is not that he believes material factors

¹² *The Theory of Business Enterprise* (New York, Charles Scribner's Sons, 1932), 370-71.

¹³ *Place of Science*, 415.

¹⁴ *Ibid.*, 415-16.

are essential to the economic processes but that he is inconsistent in trying to reduce and assimilate ideas and purposes (mental factors) to matter *per se*; he assimilates effects to causes by the blatant quantitative method. Marx declares his faith and then commits heresy in seeking an efficient instrument for its fulfillment. Marx recognizes human consciousness as a force in the movement of process, but he fails to make room for the indeterminacy of individual consciousness that would have accounted for progress in process. Rather he maintains that ideas are predetermined on the basis of the nature of matter and material forces. He attempts to locate the teleological source of action outside of man and thus indulges in just as unscientific a supernaturalism as is found in idealism. In merging the philosophy of natural rights and the categories of idealism with a crass materialism, Marx has made teleology impossible; there is no foundation for a class consciousness as the source of change in a complete determinism.¹⁵ Veblen sees the world as teleological because of man; Marx sees man's development as progressive because of the "teleological" bent of the material, nonhuman world. Marx thus expresses the same anthropomorphic bias as traditional idealism and thus makes the world a going concern, established for man's eventual well-being.¹⁶ In speaking of Marx's theory of value and its corollaries—the doctrines of exploitation of labor by capital, and the laborer's claim to the whole of his labor—Veblen points out that these doctrines are "nothing but a development of the conceptions of natural rights which then pervaded

¹⁵ In speaking of the class solidarity that will arise out of common economic class interests and the class struggle that Marx describes as proceeding until it shall put an end to the diversity of economic interests on which the class struggle rests, Veblen says: "All this is logically consistent and convincing, but it proceeds on the ground of reasoned conduct, calculus of advantage, not on the grounds of cause and effect. The class struggle so conceived should always and everywhere tend unremittingly toward the socialistic consummation, and should reach that consummation in the end, whatever obstructions or diversions might retard the sequence of development along the way. Such is the notion of it embodied in the system of Marx. Such, however, is not the showing of history. . . . Those nations and civilisations which have decayed and failed, as nearly all known nations and civilisations have done, illustrate the point that however reasonable and logical the advance by means of the class struggle may be, it is by no means inevitable. Under the Darwinian norm it must be held that men's reasoning is largely controlled by other than logical, intellectual forces; that the conclusion reached by public or class opinion is as much, or more, a matter of sentiment than logical inference; and that the sentiment which animates men, singly or collectively, is as much, or more, an outcome of habit and native propensity as of calculated material interests." —*Ibid.*, 441.

¹⁶ It is difficult to see on what basis social evolution takes place, once the conflict of class interest is resolved. The Marxian system of dialectic would no longer apply. Marx notes this but does not give any detailed prophecy of how social progress will continue. His implication seems to be a social evolution along the line of Veblen's concept of technological advance: "It is only in the order of things in which there are no more classes and class antagonisms that social evolutions will cease to be political revolutions."—Karl Marx, *Poverty of Philosophy*, 147.

English speculation and afforded the metaphysical ground of the liberal movement."¹⁷

The concept of the class struggle, which is certainly not Darwinian, is also not legitimately Hegelian. Hegel's concept of "the great man," the individual conscious of the direction and flow of history and its carrier, can hardly be construed as a class-conscious minority; and most certainly Hegel thought of this consciousness and drive as something quite different from personal interest arising out of economic conflict. There is, moreover, in the Marxian concept a coincidence of historical movement and proletariat interests, in which the proletariat are a kind of "chosen people." Actually, as Veblen points out, the concept of the class struggle is of utilitarian origin and of English pedigree borrowed from the Benthamite system of self-interest. It is a piece of hedonism and "proceeds on the grounds of the hedonistic calculus which is equally foreign to the Hegelian notion of an unfolding process and to the post-Darwinian notions of cumulative causation."¹⁸ In the Darwinian scheme, which Veblen accepts as equivalent to "science," there is no warrant for asserting a priori that the class interest of the working class will bring it to instigate a revolt against the propertied class.¹⁹ Moreover, there is no evidence for assuming any final or perfect social form, and certainly no definite equilibrium.²⁰

In contrast to Marx, the most that Veblen's categories of social evolution will permit him to predict of capitalistic enterprise is some future industrial stalemate. But even here there is no timetable or categorical prediction of the ultimate outcome:

In effect, the progressive advance of this industrial system towards an all-inclusive mechanical balance of inter-locking processes appears to be approaching a critical pass, beyond which it will no longer be practical to leave its control in the hands of business men working at cross purposes for private gain, or to entrust its continued administration to others than suitably trained technological experts, production engineers without a commercial interest. What these men will then do with it all is not so plain; the best they can do may not be good enough, but the negative proposition is becoming sufficiently plain, that this mechanical state of the industrial arts will not long tolerate the continued control of production by the vested interests under the current business-like rule of incapacity by advisement.²¹

¹⁷ *Place of Science*, 412.

¹⁸ *Ibid.*, 418.

¹⁹ Veblen, emphasizing the lack of certainty in predictions of social trends and the general indeterminacy in human progress, says that "it may well be their training in subservience [the working class] to their employers will bring them again to realize the equity and excellence of the established system of subjection and unequal distribution of wealth." *Ibid.*, 441.

²⁰ *Ibid.*, 417, 436.

²¹ Thorstein Veblen, *The Engineers and the Price System* (New York, The Viking Press, Inc., 1940), 58.

The most that can be said then, Veblen believes, is that circumstances will eventually force a change. But what that change is to be will be determined by a process of selective adaptation of temperament and habits of thought on a social level, and in terms of those guides and standards that represent social values. Such change may take the form of a soviet of engineers, as Veblen postulates in *The Engineers and the Price System*, or it may take the form of a business-oriented fascism which, he points out in *Absentee Ownership*, is a possibility, for, as he says, in the "immediate future the prospect appears to offer a fuller confirmation in the faith that business principles answer all things."²² Even though contradictions of interests may actually exist, the "institutional structure of society subsists and men live within its lines, with more or less questioning, it is true, but with more acquiescence than dissent."²³

Attitudes and Implications

Considering the ferocity of Veblen's attack on Marxian doctrine, one could easily ask how it can be said that there is any common ground. Indeed, how could Max Lerner infer, as has already been stated, that Veblen attacked Marx primarily on grounds of expediency to obscure ideological affinities? Actually, the sharpness of Veblen's criticism is perhaps due in part to the large area of common ground shared by the two systems of thought. It might be recalled that during the days of the active Inquisition the church burned heretics at stake quite indiscriminately but seldom burned pagans who might be open to conversion. One of the strange dichotomies of human nature is the kindly generosity we bestow on those "who simply do not understand" in contrast to the bitter reproach we heap on those who share a general attitude with us yet "will not see the truth under their very noses!"

The thinking of both Marx and Veblen reflects the currents of thought abroad in the nineteenth century. Both view man's life and history as process, process in which the economic factors of man's society are seen as of basic importance. The stresses and strains of a society torn between traditional relations and technology, and caught up in a growing antagonism of new class-relations, gave the impetus for their anticapitalistic attitude. Both sought an explanation of current conditions and looked forward to some resolution of the conflicts of interests. Their explanatory principles and categories of evaluation differ, as has been shown in the previous pages, but what of the ultimate resolutions and implications? Actually, so far as

²² *Absentee Ownership and Business Enterprise in Recent Times* (New York, B. W. Huebsch, Inc., 1923), 445.

²³ *Essays in Our Changing Order*. Ed. Leon Ardzrooni (New York, B. W. Huebsch, Inc., 1923), 143.

Veblen is concerned, the answer can be only a matter of speculation. In his writings he preferred to focus on social movement and economic substance rather than on political form. His analysis of the American situation as a conflict of pecuniary and industrial institutions is a far more accurate analysis than Marx's concept of sharply drawn classes. Moreover, it makes possible the resolution of interests in terms of modification, emergence, and cumulative change rather than a head-on clash of interests as was demanded in the system of Marx. Much has been made of Veblen's hypothesis in *The Engineers and the Price System*; but for all that, it remains a hypothesis, not a political plan for revolution.²⁴ Veblen's treatment of communism in his editorials and articles for *Dial* shows a clear sympathy for its economic policies but disregards its politics as of no crucial interest for the time being.²⁵ As was the case with so many liberal thinkers in the America of his day, he was vitally interested in a new sociological experiment. It would be tragic and stupid to condemn Veblen for failing to evaluate correctly the seeds of tyranny scattered in the muck of the Russian Revolution.²⁶ His sympathetic hope for a new formula to turn the tremendous productive capacity of modern technology to the common good may have been misplaced; but no one who adequately understands his concept of science and the feeble but constructive role of human intelligence in social progress could accuse

²⁴ Veblen's theme here is much the same as is found in *Absentee Ownership, The Vested Interests and the Common Man, An Inquiry into the Nature of Peace and the Terms of its Perpetuation*, etc., except with a different center of emphasis. Here Veblen deals primarily with the vested interests of investment banking. The familiar distinction between pecuniary interests and industrial welfare is here used to show the two pillars of corporate business to be the corps of industrial experts and those large financial concerns that control the "necessary funds" for industrial operations. The role of financial power is actually a ceremonial rite, says Veblen, necessary only because of the existing system of production for profit. The role of the engineers, however, is "real"; that is, it has a genuinely matter-of-fact basis. Capacity production through technological efficiency and direction are the "logical" goals of the engineer and are in harmony with community welfare. Personal gain through the restriction of production is the goal of the financial interests and is achieved, says Veblen, by effective sabotage of the material welfare of the community.

The engineers are in the peculiar position of being an indispensable "pillar of production for profit," yet as members of the general community their material welfare is being sabotaged by those they help maintain. Veblen's simple and "reasonable" solution is a general strike of the engineers with a reorganization of production control under the guidance of the engineers for the maximum material welfare of the whole community.

²⁵ Reprinted in *Essays in Our Changing Order*.

²⁶ It should be remembered that Veblen wrote of Russian communism from 1919 to 1923. Alexander Kerensky, in speaking of the fall of his democratic regime to the Bolshevistic forces, noted that at the time, they had more popular support than his own middle-of-the-road administration. "Our administration had lost touch with the people," said Kerensky. A philosophy, which declared the institution of the State to be inherently evil and an instrument of oppression, expressed exactly the feelings of the people toward the former Czar's government and seemed to many the only instrument for speedy and sweeping reforms. (The above opinion was expressed by Alexander Kerensky in lectures given at the University of Kansas City in a course entitled "The World Crisis," in the Spring semester of 1947.)

him of approving an authoritarian civil order. He leaves himself open to such charges by not stating, explicitly, his essential belief in man, man's capacity for intelligent action, and, even more important, his concept of the relentless and accumulative bettering of man's relation to his world by the blind and neutral process of institutional selective adaptation.

Veblen explains man's actions on a collective level in terms of cause-and-effect analysis, thus making possible the prediction of social trends; yet this does not involve him in the metaphysical morass of determinism. Determinism is restricted to levels of action; indeterminism is a phenomenon of the interaction of levels. Marx attempts to formulate categories of analysis that would explain the process of man's social development within certain established class relationships. Veblen assumes with Aristotle that man is necessarily a social animal, and he seeks to explain the general process of social development and the role of individual reflective intelligence that contributes progress to that process. Institutional analysis is the conceptual foundation of Veblen's approach, for the social institution is the end product of the general process of value formation.

Does this involve Veblen in some ultimate dualism? Yes. For the novel emergence of man's reflective intelligence has involved the world in an ontologically real dualism. Recognition of man's capacity for mentally compressing the past and future into a present reflective analysis has destroyed forever the concept of quantitative equivalence as an adequate description of reality and explanation of change. Veblen's recognition of the nature of this process is a contribution to the scope of scientific methodology making possible the incorporation of novelty, qualitative change, and time as categories of scientific formulation.

Can this skeptic, the iconoclast Veblen, be accused of voicing a faith—a faith in ultimate peace where there is now war, a faith in ultimate human satisfaction where there is now need and poverty, a faith in brotherhood of interest and workmanship where there is now distrust, waste, and futility? We believe so.

Book Reviews

Edited by

H. MALCOLM MACDONALD

C. HERMAN PRITCHETT: *Civil Liberties and the Vinson Court*. Chicago, University of Chicago Press, 1954. 297 pages. \$5.00.

This volume is essentially a sequel to Pritchett's excellent study, *The Roosevelt Court*. The author analyzes the Court's grappling with civil-liberties issues in the age of the "cold war," first by examining its disposition of various civil-liberties issues, and second, by diagnosing the underlying reasons for the pattern of divisions within the Vinson Court. He employs with appropriate qualifications his now familiar and fruitful technique of analyzing the voting alignments of the justices in nonunanimous decisions. This provides fresh evidence concerning the extent to which as judges members of the Vinson Court preferred libertarian values to other values that compete for recognition in civil-liberties cases. The evidence clearly reveals, of course, that in this area Justices Black, Douglas, Murphy, and Rutledge consistently followed a pattern of what the author calls "libertarian activism." Frankfurter, in a class by himself, is an exemplar of "libertarian restraint." While admiring Frankfurter's extraordinarily conscientious attempts to minimize the policy-making role of a politically irresponsible Court, Pritchett thinks that he "has carried his preoccupation with re-

straint to almost pathological extremes in an effort to insure and demonstrate that his own decisions are the product of legal principles operating under antiseptic conditions and untouched by personal preferences."

The other six justices who served on the Vinson Court and who formed the controlling majority are characterized as simply "less libertarian" in varying degrees. If voting records mean anything, then Minton, Vinson, and Reed were generally the least devoted to libertarian values among the cluster of competing values in civil-liberties issues. Concerning the late Chief Justice, the author concludes that "when the benefit of every doubt has been given to Vinson, however, it seems that his success as an integrating force on the Court was quite limited." In all humility and moderation, the author feels that on the question of balance "the Vinson majority frequently failed to exhibit . . . a warm humanitarian sympathy, a conviction that libertarian values are tremendously important, an insistence that the Court use the full measure of its legitimate power to compel adherence to procedural safeguards, and a tough-minded scrutiny of the plausible rationalizations which are always available to explain away infringements of human liberty." With this conclusion, many students of the Court will doubtless agree. The author has pro-

duced a judicious and succinct analysis that is essential reading for anyone seriously interested in the work of the "most august of courts."

Landon G. Rockwell
Hamilton College

FLOYD HUNTER: *Community Power Structure—A Study of Decision-Makers*. Chapel Hill, University of North Carolina Press, 1953. 297 pages. \$5.00.

Floyd Hunter has made an excellent study of power-leadership patterns in a metropolitan community that he has named Regional City, population one-half million. The reader does not have to go very far into the book to know that Regional City is one of the larger urban areas in the Carolinas or Virginia. He defines "power" as "a word that will be used to describe the acts of men going about the business of moving other men to act in relation to themselves or in relation to organic or inorganic things."

The methods of study employed are described in an appendix. Space will permit this reviewer to say only that a pilot study was made of a smaller community. The pilot study suggested refinement of techniques that aided considerably in the study of Regional City. The data in the book reflect the large effort necessary to acquire them and their treatment shows the care with which they were analyzed.

As the publishers have pointed out, the book is not an exposé. It is a description and discussion of a contemporary social phenomenon as it occurs in this particular city. The uninitiated reader should not infer that the pattern

of leadership that prevails in Regional City is exactly like the prevailing patterns in other cities of comparable size. There are too many variable factors that may influence the pattern.

In Regional City the leaders compromised their differences. In some cities they fight it out. The pattern may vary also according to extent of heterogeneity, educational level of the citizenship, degree of industrialization, geographical location, and many other factors.

The author succeeds in pointing out there is a hard core of decision-makers in Regional City, and he shows how they operate. The same situation applies in nearly every other community in this country, large and small. The types of leadership, however, and their methods of operation may vary from place to place and time to time.

The value of this book lies primarily in the fact that it calls attention to this phenomenon and outlines methods by which community leadership may be studied. Too many people who ought to know, do not know how their communities are run. This book should be of value to all social scientists and civic workers, both professional and layman, toward a better understanding of the forces that make their own communities click.

Leonard Logan
University of Oklahoma

JEAN PAUL SARTRE: *Existential Psychoanalysis*. Trans. and with an introduction by Hazel E. Barnes. New York, Philosophical Library, Inc., 1953. 275 pages. \$4.75.

The present volume is a translation

of two chapters of the well-known French existentialist's major philosophical work *Being and Nothingness* (*L'être et le néant*) together with a fairly extensive introduction in which the translator endeavors (quite successfully) to provide the necessary background for adequate comprehension of these selections. The translation is good and the selections quite admirable for those interested merely in obtaining a firsthand sample of an important contemporary point of view, as well as being especially cogent and challenging for those interested in the problem of the ultimate foundations of psychoanalytic theory.

Psychoanalysis, Sartre argues, must develop its ultimate principles neither empirically nor intuitively but ontologically; that is, it must begin with a fundamental insight into the nature of man. This insight Sartre aims to provide with the doctrine that the goal of the individual is Being-in-itself-for-itself. Man desires to be an essence, to be wholly determinate in character (the In-itself); but he also desires the freedom to choose his destiny (the For-itself). These two goals, however, Sartre finds incompatible, enabling him to conclude his work with the dramatic statement: "Man is a useless passion." This interpretation of human nature seems puzzling when coupled with Sartre's further basic doctrine that existence is prior to essence: the individual is unique; his character is determined by his own free choice; he is what he chooses to become. But if the twofold desire for the In-itself and the For-itself is intrinsic to human nature, then, evidently, man freely determines his own essence only in a special and qualified sense. Man's freedom, if it is not

a ground for an optimistic view of human nature, at least should not of itself be a source for pessimism; Sartre's view is pessimistic precisely because it does imply that man has an essence prior to existence and that this essence is dual and inconsistent in its aims. The emphasis on freedom leads Sartre to oppose the environmental determinism implicit in much of traditional psychoanalysis. Indeed, in his outline of a method for reaching a proper understanding of the unique individual, Sartre appears unwilling to admit that a given environment imposes any limits at all on one's mode of self-determination, a position as extreme as the one he is reacting against. The Freudian conception of the subconscious is rejected since it would constitute a limit on free choice, and, consequently, the Freudian symbolism is rejected as well. Sartre's own efforts at symbolic interpretation are among the most interesting and ingenious aspects of the present selections.

Whatever one may think of his ontology or of the psychoanalytic theory that he constructs out of it, this much seems evident: Sartre's work is clearly significant as an example (of a kind all too infrequent) of the importance of making explicit the connection between ontological commitments and specialized inquiry.

Daniel Kading
University of Texas

SIDNEY HYMAN: *The American Presidency*. New York, Harper & Brothers, 1954. 354 pages. \$4.00.

Here is a book written by one whose university education has been enriched

by experience as a newspaperman and as administrative assistant to Governor Philip La Follette, and by participating in the management of the campaigns of Senators Scott Lucas and Paul Douglas and of Governor Adlai Stevenson.

This is a fresh approach to an interpretation of the presidency. Almost one-third of the work deals with the office as an institution—what the result of social forces, the personalities of presidents, and the folkways and mores of the American people have made it. It is a welcome departure from the all too prevalent legalistic interpretation of the great office.

The author introduces his exposition of the presidency as an institution by pointing out its nonlegal factors, its symbolism as our version of the crown, and the fact that the President reigns as well as rules. Then there is the effect of his practically direct election. Cancel out parties and the presidency would scarcely be recognizable. Hyman suggests the need for a compilation of presidential usages, and precedent for these above all else accounts for the institution.

One of the finest contributions of this study is an evaluation of proposals for electoral reform. The direct election of the President by a straight popular vote, the apportioning of the electoral college vote in each state according to the division of the popular vote, direct national nominating primaries, realignment of voters into conservative and liberal parties—each in turn is considered and found wanting.

The book closes with a shrewd analysis of proposals for reforming the presidency itself. These include suggestions for giving cabinet members collective responsibility, for giving

them the right of debate in Congress, for a Council of Elder Statesmen attached to the presidency, and for a Legislative Council. Each of these is rejected after consideration of the disadvantages that would almost inevitably result.

The significant conclusion of this study as a whole is that the presidency as an institution is the product of more than a century and a half of the play of the social forces of a peculiar people upon the office. Any attempt at a radical artificial alteration would be about as futile as an attempt to alter natural forces themselves.

Wilfred E. Binkley
Ohio Northern University

E. H. PLANK: *Public Finance*. Homewood, Illinois, Richard D. Irwin, Inc., 1953. 772 pages. \$6.00.

A teacher is interested in the publication of a new textbook in his field. Plank's *Public Finance* is especially welcome, coming as it does at a time when most of the postwar books are becoming slightly out of date.

The contents are conventional. The first part, concerned with public expenditures, occupies about 120 pages. This is followed by more than 450 pages devoted to taxation. Part III, on public debt, occupies but 70 pages. Part IV, just over 100 pages, is entitled "Financial Administration and Stabilization Policy." On the whole, too, the viewpoint is largely in keeping with that of several other writers in the field.

Presumably the book is written largely for pedagogical reasons. On that assumption, some interest may attach to

the textual pattern. The thirty-one chapters are, on the whole, attractive reading—at least, to this reviewer. There is relatively little tabular material and even less in the way of charts, maps, graphs, and other so-called "visual aids" to teaching. In fact, there may be question as to whether enough emphasis has been placed on revenues to avoid undergraduate error in understanding the relative significance of various types of taxes. At the end of each chapter is a collection of "Questions and Problems," which mainly call for answers that restate the contents of the chapter. In other words, the queries do not emphasize the "problem" approach.

One professor of public finance with long experience, discussing the book as a possible text for seniors, expressed impatience that the author reaches no fiscal-policy conclusions. This critic might well have noted such passages as this: "The logical remedy for the problem of overlapping jurisdiction in local government is either redistricting, consolidation, or both. Realignment or integration of functions among existing local units may also effect a partial solution of certain aspects of the general problem." Apparently, Plank does not hesitate to express his opinion when he has a definite view.

In addition to quantitative data, some teachers will miss in *Public Finance* a full presentation of certain phases of basic theory. For example, Chapter VIII, "Principles of Taxation," and Chapter IX on incidence deal rather fully for an elementary text with the economic relationships of taxes in the short run, but the author does not develop the theory of tax capitalization, nor does he give much considera-

tion to the relationship of taxes to saving—or in other ways to the productive process. The same is true generally in the discussion of particular taxes. The controversy as to the effects of income taxes on long-range production is overlooked.

Speaking generally, this book should prove a considerable addition to the existing textbooks on public finance. It has the distinction of being the only one for the current year which is well up to date—though revisions of other books have already been announced. Even though this factor is not so important as just after the Second World War, its significance is still considerable.

James W. Martin
University of Kentucky

LYNN L. BOLLINGER and JOHN S. DAY: *Management of New Enterprises*. Homewood, Illinois, Richard D. Irwin, Inc., 1954. 485 pages. \$7.35.

New enterprises are so essential to our national economy that it is quite opportune that the authors have chosen to develop this casebook of problems on the establishment and operation of new businesses. The book, definitely designed for classroom discussion, contains cases that cut across the narrow lines of specialization and present a challenge to the student's cultural as well as his professional background in the broad field of general management.

The case material is well organized into five major areas, which cover the basic problems of new enterprise management. Eight cases present the prob-

lems of starting a new enterprise with a new product, six cover the starting of a new enterprise with an existing product, seven involve the acquisition and development of established organizations, seven are in the area of new enterprise financing, and ten are concerned with the development of the new and growing organization.

A casebook must inevitably succeed or fail because of the content of the cases. The authors state, and it is quite evident, that the cases are based on actual material made available by a number of businessmen. The selection of detail is well balanced in that it presents sufficient information to afford an excellent discussion-springboard without becoming chaotic in superfluous quantity of detail. The cases involve elements of success and of failure. They force the student to evaluate in his own conceptual pattern the relationship of the factors rather than to determine a single "right" answer. The problems of this approach are recognized by the authors in these words: "Some of the discussions most conducive to the development of penetrating analysis and balanced judgment may at first leave the student with a feeling of frustration since no uniformity of class opinion may have resulted. The purpose of the case has been served if it provokes intelligent discussion, independent thinking, and progress toward the ability to make sound, well-considered decisions."

This casebook presents a provocative challenge, especially to those who would break the "security concept" that keeps so many from daring to start or work with new enterprises.

Edwin W. Mumma
University of Texas

SEBA ELDRIDGE: *The Dynamics of Social Action*. Washington, D. C., Public Affairs Press, 1953. 115 pages. \$2.50.

"The enlightened practice of citizenship and community membership . . . embraces certain musts: keeping up with current events, discharging one's responsibilities as a voter, informing oneself of community needs. Beyond that *the individual's choice of activities may be quite properly based on his own interest and convenience.*" This quotation is from the conclusion of *The Dynamics of Social Action*, and before one presumes to speak in justification of his beliefs or activities concerning any one of the many statements assessed therein, he would be wise indeed to be familiar with the contents of the book.

The author lives up to the title. Those interested in doing something for the public good can find no better guide, for not only is a history given and foundation laid for the changing pattern of our social life but also the most serious "problem areas" of our day are discussed. The book treats not of social theories or of what ought to be but of facts. Time and again the reader is given instances of public action, similar to the action taken by interested groups in Oklahoma City, as related in the February issue of *Reader's Digest* entitled "Ganging up on Divorce."

Another merit of the book is that the author has not hesitated to make definite statements or to draw practical conclusions. The reader may not always agree with such statements, but in disagreement he will understand the provocative nature of the subject. For ex-

ample, exception may be taken to this statement: "Parent-teacher organization is still in its formative state and not unlikely will play an increasingly important role in the future. The possibilities obviously are very great. Schools can progress no faster than the public permits." Many people today differ vigorously; in the first place, they feel that parent-teacher organizations were well organized a quarter of a century ago and in the second place that they have so "gone to seed" or lost their independence that they have had very little to do with the so-called "progress" made by the schools.

The book is well written, is good reading, and should be widely distributed and read.

Hugh Orton Davis
Oklahoma Baptist University

CHARLES WAGLEY: *Amazon Town: A Study of Man in the Tropics*. New York, The Macmillan Company, 1953. 305 pages. \$5.00.

While of interest to anyone looking for factual descriptions of contemporary life in other countries, this volume is especially pertinent for those interested in applied anthropology as found in technical assistance programs, such as "Point Four." It is also an important addition to our bibliography of "community studies," and it provides valuable data regarding field procedures associated with research of this type.

Itá is a small town near the mouth of the Amazon. Wagley's study is based on correspondence and reports as well as on actual field investigations extending from 1942 through 1950, the prin-

cipal period of field work occurring from June to September, 1948. Itá is a pseudonym, as are the names of the people mentioned. The reviewer remains unconvinced of the wisdom of this policy of anonymity despite the fact that numerous anthropologists of far more experience regularly practice it.

Itá and the surrounding region are part of the underdeveloped regions of the world. The author admits that "no one community is ever typical of a region or a nation," a sound realization; this, however, does not preclude the use of such data in comparative analyses. Wagley asks: "... does a hot and humid tropical environment impose limitations upon human development that make it next to impossible to raise living standards in such areas?" In answering, he discusses problems of cultures and races, dietary matters, and aspects of disease and modern medicine in this environment. He emphasizes the great adaptability of mankind and suggests that the extent to which a given nation approaches the "finite limit of civilization depends upon human factors." In the Amazon Basin, this "finite limit" is still a remote horizon, as science and technology are all but unknown. The book portrays Amazon culture as exemplified by Itá, indicating in what ways science and technology may be introduced with the greatest speed and minimal stress. Modification of the present culture and accompanying readjustments must be anticipated and planned for, in so far as it is possible. It is not a simple matter, but Wagley displays confidence that, with careful consideration, it is a possibility.

An adequate bibliography and a

well-selected index are included. Eight line drawings by the Brazilian artist João José Rescála afford atmosphere for the text—in all, a most readable and valuable addition to the literature on contemporary Brazil, Latin America, technical assistance programs, community studies, and research procedures.

Charles H. Lange
University of Texas

HARRY H. TURNEY-HIGH: *Château-Gérard: The Life and Times of a Walloon Village*. Columbia, University of South Carolina Press, 1953. 297 pages. \$5.50.

Although most Americans have their antecedents in Europe, Turney-High considers us largely ignorant of the culture of the ordinary Continental European. This fact makes his book significant, for it is one of the very few anthropological studies made on the Continent of Europe, and therefore deserves the attention of social scientists.

The setting for the study is a village that Turney-High has given the pseudonym of Château-Gérard, situated in the Walloon Condroz of Belgium. The field work was done during 1949-50, when the author held a grant-in-aid under the Fulbright Act.

A large portion of the book is devoted to the history of the village and the region where it is located. The first four chapters are almost wholly historical, and the remaining eight contain considerable historical materials. The author apparently devoted a large part of his time to examining secondary sources, feeling that this work was necessary for proper orientation. In

fact, relatively little information in the book is based on the field study.

In his analysis of agriculture and population data, the author seems to be on unfamiliar ground and makes several errors which detract from the value of the study. His greatest contribution is the portion of the book dealing with social-class structure in the community. American social scientists should find the discussion of social classes interesting and provocative.

Rather than limiting his discourse to Château-Gérard, Turney-High tends to present rather lengthy expositions on anthropological theory and criticisms of social scientists in general, which at times seem superficial. Again, the book at times reads like a movie travelogue. In it, however, the discerning reader can find a plethora of significant information about culture that is worthy of the attention of Americans.

John C. Belcher
Oklahoma A. & M. College

ANDREW G. TRUXAL and FRANCIS E. MERRILL: *Marriage and the Family in American Culture*. New York, Prentice-Hall, 1953. 587 pages. \$5.75.

ROBERT F. WINCH and ROBERT MCGINNIS (eds.): *Selected Studies in Marriage and the Family*. New York, Henry Holt, 1953. 578 pages. \$4.00.

In the earlier part of the twentieth century, college courses and textbooks on marriage and the family were for the most part historical and sociological, using descriptive and analytical methods, with little or no attempt to

include practical applications. About 1930, there appeared applied courses in marriage and family life, based more or less upon sociological principles discovered in earlier studies. Corresponding texts soon appeared.

The two books in this review, as well as other new texts, have attempted to combine the two points of view. For persons who have not studied sociology, this approach to applied courses may be helpful, though it may also be confusing. Naturally, those who have studied sociological principles are apt to consider the inclusion of the development of principles a repetition of effort.

The first of these books under review is definitely designed to include both aspects of marriage and the family. It also includes the psychological principles of personality development and applies them to experiences in the family. The chief point of emphasis in the organization of the materials is that the relations and functions in marriage and the family are interdependent with the entire culture of which they are a part. Nearly all phases of the field are treated, though some of them inadequately, especially in application. Recreational functions of the family, for instance, are limited to certain simple activities in the family home. They do not include the activities in which two or more members of the family choose and participate together in commercial and public recreations. The function of recreations in courtship and in the choice of mates is entirely neglected. The tendency generally in the book is to present only conclusions of studies in the field of marriage and the family, apparently on the theory that the reader will make his own applications. In fact,

few references to the more practical books are given.

The second book, *Selected Studies in Marriage and the Family*, though designed to accompany Winch's *The Modern Family*, is an appropriate accompaniment to the book reviewed above, as well as to others of like nature. This conclusion is based on the assumption that references are to be of like nature to the texts. The selections are for the most part from competent students, and the orientation for their use is given in the introductory chapter by the authors' discussion of the use of science in this field.

Alvin Good

Northwestern State College of
Louisiana

RICHARD M. CAMERON (ed.): *The Rise of Methodism: A Source Book*. New York, Philosophical Library, Inc., 1954. 360 pages. \$4.75.

This book was compiled by the professor of church history in Boston University School of Theology in the belief that never has the rise of Methodism "been better told than by the men who were themselves making the story as they wrote." It begins, as John Wesley said, "before he was born" and ends with the holding of the first Methodist Conference in 1744. The framework is provided by selections from the *Journal* of John Wesley, but into this is skillfully woven relevant material from his letters and other writings, from the letters and journals of Charles Wesley and George Whitefield, and from many other sources.

Since the journals did not begin un-

til the voyage to Georgia (chapter iii), background for the first two chapters, "The Rectory Family" and "The University," is drawn from other sources. Then follow chapters on "The Nascent Revival," which sets the activity of these leaders in the context of "religious societies," which were constantly springing up in England long before their time, and "Charismata," which deals with Wesley's visit to the Moravian settlements in Germany after his conversion. Chapter vi, "The First United Societies," portrays the growing separation from the Calvinistic Methodists and from the Moravians, and the Wesley's relations with the Anglican Church. Finally, "The Development of Discipline" shows the adoption of such characteristic devices as "bands," "class meetings," and "conferences."

The point of view is biographical and historical rather than theological. But this necessarily involves crucial developments in the theology of the revival, and for this also the volume will prove a valuable source book. The editor acknowledges that to a certain extent his own interpretation was inevitable in the process of selection itself. In fact, I should say that, though this is an anthology, Cameron has done more than edit; he has at the same time done a fine piece of historical writing. He never seems to have made up his mind whether to italicize his introductory comments or to print them in roman type. His system of notations is almost as complicated as the ciphers in which Wesley hid his journal; and some of the notes in the back should have been placed at the bottom of the pages as an aid to the reader. Still, not alone will the student of history, or of

the Church's life, be interested in this volume. The ordinary reader can spend many a fine hour with it—if for no better reason than to find out about John Wesley's relation with "Miss Sophy" and his later more successful encounter at Bath with "Beau" Nash.

Paul Ramsey
Princeton University

D. H. STOTT: *Saving Children from Delinquency*. New York, Philosophical Library, Inc., 1953. 266 pages. \$4.75.

In *Saving Children from Delinquency*, Stott has produced a provocative work accurately described by its title. Choosing chapter titles indicative of the very core of each area of his subject, he directs his attention to: (1) the economy of prevention, (2) the advantage of beginning early with the child who is threatened, (3) the function of the school and of the youth club in his training, (4) the nature of what he calls "the breakdown family" and of its relation to the child, (5) the diagnostic traits of the child whose deprivation is leading him astray, (6) the qualities of the "imminently delinquent" youth, (7) the role of the school that specializes in difficult children, (8) methods of diagnosis of children who are at various stages on the delinquency road.

The author does not draw his conclusions out of thin air. As a research fellow in the Institute of Education at the University of Bristol, he has based his treatise on the observation of 102 boys at an English "approved school." It would be just like us in the United

States to call it by a name that would indicate that it is highly unapproved. In such a school, or in every other relationship, he emphasizes over and over that it is important for the child to be freed from a sense of anxiety and to gain a sense of acceptance. For the presence of anxiety and the lack of acceptance are major factors in almost all delinquency or other types of breakdown.

Stott outlines three kinds of measures to be employed in dealing with delinquency: short-term measures, middle-term measures, and building for the future.

Short-term measures would have the object of "rehabilitating the actually or imminently delinquent." Middle-term plans would "concentrate upon the discovery and eradication of those situations which are known to produce a delinquency susceptibility." These situations may exist in the home, the school, or the community, but Stott emphasizes the home. Long-term measures would attempt to "improve our family tradition and carry out a more conscious emotional education of the nation."

Space does not permit an adequate review of this excellent book. Here it is only possible to say that, unless we gain the insights that Stott and others like-minded have attained in dealing with anxiety-ridden youth, we will only succeed, as he suggests, in "boiling our bad eggs a little harder."

Austin L. Porterfield
Texas Christian University

PASCAL K. WHELPTON: *Cohort Fertility, Native White Women in the United States*. Princeton, Princeton

University Press, 1954. 492 pages. \$6.00.

The year 1935 marked the end of a half-century or more of falling birth rates in the United States. Projecting this trend, most of the demographers in this country put themselves on record with forecasts of a stationary population to come by 1950 or, at latest, by 1975, to be followed for the next generation or more by a slow decline. The small increases in births that occurred in the late thirties were not regarded as anything more than temporary deviations from a well-established movement toward fewer and fewer children.

The explosive rise in births during the early months of the First World War, followed by still more spectacular increases after the war and a birth rate still sustained at high levels, caught the demographers off guard. Reluctantly they had to concede that they had been wrong. Since then, they have been casting about (with considerable success) for good explanations of their error. Most of these are mentioned in the book under review, which is the most careful and detailed study of births in the United States so far completed. This book offers, therefore, the best explanation to date of the failure of the forecasters, an explanation which shows that they were, in the long run, possibly not so far wrong as it has seemed.

Whelpton's book brings to light the role of socio-economic factors in the determination of births in America. Of prime importance are prosperity and depression, which have the effect, respectively, of advancing or postponing births. This adjustment to economic conditions is possible, of course, only

to a population that has available the means of limiting births at will. Its occurrence therefore clearly indicates that North Americans now can and do successfully practice birth control. Perhaps this achievement is also responsible for the lowering of the marriage age which has occurred during the last decade. In any event, early marriage and prosperity have combined to produce the unexpectedly high birth rates of recent years. However, as Whelpton points out, these changes are mostly in the nature of accelerations in timing. There is no indication that the present-day completed family will be substantially larger than that of the thirties.

Whelpton's contribution consists essentially in the calculation of annual age-parity birth rates for successive cohorts of women born each year from 1875 to 1933. The statistics are presented and explained in utmost detail; apparently every implication has been explored and commented upon. Where estimates are used, the methodology and the reasons for its employment are fully elaborated.

Cohort Fertility goes on the "must" list for all students of population, but it is not recommended for vacation reading.

Carl M. Rosenquist
University of Texas

DAVID HAMILTON: *Newtonian Classicism and Darwinian Institutionalism, A Study of Change in Economic Theory*. Albuquerque, University of New Mexico Press, 1953. 138 pages. \$1.00.

This book, by an institutionalist, attempts to compare and contrast the con-

cept of economic change in classical and institutionalist economic theory. Economists are classified as either classical (all orthodox economists from Smith to the present—Keynes, Hicks, Schumpeter, Boulding, and Samuelson included), or institutional. The usual charges are made that classical economics is static, mechanistic, hedonistic, melioristic, teleologic, normative, and non-evolutionary, whereas institutional economics is truly dynamic, evolutionary, and cumulative, free of all emotional biases and preconceptions. The reason is that one is based on Newtonianism, the other on Darwinism.

The result is a vast difference in their concepts of human nature, social organization, economic change, and progress. Classicism emphasizes the individual, the market place, and equilibrium price. Institutionalism emphasizes the group, culture, technology, and cumulative development. To the institutionalist, social Newtonianism was an advance over the concept of divine control just as social Darwinism is an advance over social Newtonianism. Similarly, in time, social Darwinism may be replaced too.

The orthodox economist's reaction is that institutionalists tend to attack straw houses and men of their own make and choice, rather than modern-day economics at its best. Also that institutionalism is negative in that it seeks to destroy orthodox economics but not to replace it.

There is nothing sacred about modern-day economics. If it cannot meet the institutionalist attack, it should be replaced. The burden, however, is on the institutionalists to produce not only a superior theory of economic development and change but also a superior theory of price. Textbooks on the prin-

ciples of economics by institutionalists are needed badly so that their relative superiority or inferiority can be judged.

Congratulations to the University of New Mexico on the high quality of their first publication in the new economic series. Future publications will be awaited with interest.

Ervin K. Zingler
University of Houston

RAMON F. ADAMS (compiler): *Six-Guns & Saddle Leather—A Bibliography of Books and Pamphlets on Western Outlaws and Gunmen*. Norman, Oklahoma, University of Oklahoma Press, 1954. 416 pages. \$12.50.

Ramon F. Adams, of Dallas, Texas, has written four other books of a historical nature on Western subjects and is a collector of, and trader in, Western Americana. His original plan was to make a single bibliography of printed materials on "bad men" and range life. The present work lists, with bibliographical data and comment, 1,132 items pertaining to exponents of the six-shooter and to what might be called the civilization of violence west of the Mississippi. A good many items primarily about cowboys and mining are listed because they contain something about gunmen either within or without the law. Most works of fiction and histories of counties and states are omitted.

Adams classifies writers on six-shooter activities into four groups: sensation-mongers, usually proclaiming their output as "true" and "authentic"; old-timers, usually with unreliable memories and without training in either

writing or search for truth; rewriters of spurious accounts; and writers of intellectual integrity worthy of being called historians. As he comes to the writers, arranged alphabetically in the bibliography, he passes judgment on the validity of many, but about as often names the gunmen or outlaws treated without classifying the work.

A philosophical evaluation of outlawry and violence in American life remains to be made. An evaluation of the enormous mass of writing, most of it approving, on this violence is due.

The use of "OP" (out of print) by Adams is misleading and inconsistent. He places the OP symbol after descriptions of the first printings of numerous books that are in print. Naturally, a book that has gone into several printings is no longer available, except from rare-book dealers, in the first edition. Usually a reader understands that any printed work stamped OP is out of print.

J. Frank Dobie
Austin, Texas

LAWRENCE C. WANLASS: *Gettell's History of Political Thought* (Second edition). New York, Appleton-Century-Crofts, Inc., 1954. 418 pages. \$5.00.

The appearance of a revised edition of the late Raymond G. Gettell's *History of Political Thought* brings back the recollection of old controversies on the merits of this widely translated, widely sold volume. It seems clear from the extent of the revision that the old arguments will not be materially changed. No book could have filled the place of Gettell's book without having

some virtues, aside from the incidental fact of being one of the first one-volume works in this country on the history of political theory. But a listing of such virtues becomes a difficult and stormily controversial task.

Wanlass says his revision does not alter the general character of the work, and the changes made relate primarily to the Greek material and the concluding chapters on liberalism, fascism, and communism. He says he has used McIlwain and the Carlyles in making his revisions. Now one might say immediately it is very unfortunate that more extensive revisions were not undertaken, or that the critical judgments of McIlwain, for example, were not included in this second edition. And even more particularly, one might say Gettell was weakest in his treatment of the medieval period, where Wanlass made no attempt at serious revision.

In a book on political theory, the inarticulate major premises seem to count more than in nearly any other kind. What were Gettell's premises back in the twenties? The revision does not seem to change the picture materially, except in one or two areas. Gettell was an unreconstructed nineteenth-century liberal, and his *History* was thus essentially a nineteenth-century book. It had none of the doubts of the mid-century in which we live, and there was no serious crisis of the "West." One wishes that Wanlass might have been more clear in the statement of his own ideas. Fascism seems to come essentially from idealism, yet idealism also provided concepts for the Marxians. Fascism seems more dangerous than communism to human liberty, at least in the way they are treated in the revision. To this reviewer, at any rate, there does not

seem to be a full continuity in presupposition between the original work and the revision.

Many will say, no doubt, that the revision is quite inadequate. Others will say it is fortunate that such virtues as Gettell had are not lost. And still others may say that the world of scholarship in the history of political theory has moved faster than the revision even suggests.

Francis G. Wilson
University of Illinois

EUGENE O. GOLOB: *The "Isms": A History and Evaluation*. New York, Harper & Brothers, 1954. 681 pages. \$6.00.

A readable account of social philosophies in action combines in this volume the college textbook manner with considerable original thesis. The title does not seem perhaps a very happy choice. The score of "isms" listed on the jacket suggests an ill-integrated diversity. Except for the concluding chapter, the book itself does not lack integration. The presentation is fluent and clear, the scholarship broad.

First is a statement of capitalist ideology, objective in tone and without pretense of originality, set in the frame of European and American history. The second part of the treatment, entitled "The Mercantilist Tradition," is largely devoted to the evolution on neomercantilism, and in this connection finds much in common between the Hamiltonian protectionism and the New Deal. Mercantilist social policy, regarded by its supporters as a matter for human, not natural, law is seen as being highly adaptable to a variety of condi-

tions, and as having reflected a marked continuity in the history of this country. The New Deal was only a continuation of the process of democratizing the objectives and the benefits of the mercantilist state. Its leadership, like that of economic democratization elsewhere in the free world, aimed fundamentally at preservation of the established order and followed, in large part, the precepts of Keynes. Keynes, who often has been called a "depression economist," was in fact much concerned also with combating inflation and is more properly designated a theorist of the national economy. His mercantilist stripe, as in his theory of money, is well brought out.

After 360 pages of the history of socialism—soundly told, if the reviewer is any judge—comes the most original and interesting part. This, Part IV, adds up to a defense of the possibilities of corporatism. Sharing, in many ways, the characteristics of the neo-mercantilism of modern society, it "is truly chameleonlike in its linkage with the most diverse and contradictory political and social beliefs, and it therefore ranges in color from an anarchic democracy to national totalitarianism. . . . Its most popular expression has been that of the European Catholic parties after World War II. . . . A less formal kind of corporatism is that of certain secular sociologists, historians, and economists, who form no school, and differ in many respects, but paradoxically it may turn out that they are describing the actual trend of advanced capitalist society."

Recognizing that much of modern corporatism is rooted in strongly conservative viewpoints, as in the thought of De Maistre and De Bonald, and

recognizing, too, the evil wrought by the "manic" kind of Mussolini's system, emphasis is put on the credit side of the ledger that may be appearing in the Christian and democratic (both Catholic and Protestant) corporatism which is seen as now perhaps coming to the fore.

The reviewer would offer two serious criticisms. The first is that the inadequacy of national structures and the need for supranational systems are not sufficiently recognized. The second is that the concluding chapter, entitled "The Middle Way in the Modern World," covers with a too free assertion, a too wide variety of subjects tenuously strung on "the wisdom that steers between extremes." A shorter book centering on the more original of the matter encompassed would have been more valuable. Yet college classes should benefit by this text as it is.

Walter E. Sandelius
University of Kansas

GEORGE EATON SIMPSON and J. MILTON YINGER: *Racial and Cultural Minorities*. New York, Harper & Brothers, 1953. 770 pages. \$6.00.

This is more than just another good text, for it brings to the materials an emphasis and a point of view not precisely duplicated in other current texts. The authors state two major reasons for another book on American minorities. Their first reason—the need for synthesis—has been recognized and attempted, from somewhat different viewpoints, by other authors. Their second reason is their concern with the need to emphasize "the connection between studies in this field and the whole

area of the sciences of human behavior. Valid analyses of prejudice and discrimination must rest squarely on broader principles of human behavior." In this integrative function the authors make their greatest contribution, drawing from sociology, economics, psychology, and, especially, social psychology. The complexity of prejudice and discrimination is emphasized throughout; the various theories of prejudice are described, carefully evaluated, and related to each other. A feature that pleased this reviewer is the reporting of the actual research on which conclusions are based. The lengthy defensive explanations that social scientists sometimes make when research seems inadequate are happily absent. At the same time, the product is not oversold by glossing over inadequacies; the weak and strong points of pertinent research are candidly evaluated.

Parts I and III of the text, over half its length, discuss prejudice and discrimination, and Part II describes the institutional pattern of intergroup relations in America. Throughout, the emphasis is on the American Negro, but examples concerning Jews and other minorities are also frequent; two chapters specifically discuss anti-Semitism as a case study in prejudice.

It is unfortunate that some data presented in a 1953 publication are already rather outdated. Much material on minorities in the American economy, for example, is dated in the mid-1940's or even earlier. Teachers who consider first one minority and then another will find the text unsuitable for the encyclopedic approach; many instructors doubtless would prefer a smaller proportional emphasis on prejudice and greater length in the institutional material.

Those professors, however, to whom prejudice and discrimination are the central emphases in the study of minority groups will be delighted with this text, for the authors have done an outstanding job.

Joseph S. Vandiver
Oklahoma A. & M. College

J. FRED WESTON (ed.): *The Role of Mergers in the Growth of Large Firms*. Berkeley, University of California Press, 1953. 156 pages. \$3.50.

"Painstaking" is the most appropriate description for the study made by Weston about the merger problem in our industrial development. His work covers in the first five chapters the available statistical evidence on the subject and provides added data not previously available. In two more chapters he briefly summarizes his findings, carefully documented by numerous appendices with more detailed statistical material.

The objectives of this study on mergers are "to narrow the gap in economic knowledge" by providing data and to analyze the results from the viewpoint of theory as well as of public policy. Weston's statistical investigation is a definite contribution to the study of mergers. He is scrupulously fair and scholarly in his presentation. He has no ax to grind and makes sure that every statement can be fully supported by the statistical evidence.

The result of his approach, however, is frustrating. The empirical evidence will not support any definite conclusion. The author hedges, therefore, nearly every statement made in this book. His position remains unim-

peachable, but the reader becomes discouraged. As a result of this caution, we read for example: "These data do not support the extreme positions frequently expressed about the role of acquisitions in the growth of individual firms. Acquisitions have played a relatively negligible role in the growth of most of the oligopolistic firms studied. Yet it cannot be asserted that acquisitions have been an unimportant source of growth for all individual firms, since a number of the firms studied owe the greater portion of their expansion to external growth."

Occasionally this type of presentation becomes very confusing. When the author concludes on the relationships of mergers and concentration that "internal expansion accounts for a relatively small degree of present industrial concentration" and on the same page adds that "the present absolute size of most of the oligopolistic firms is due mainly to internal growth," we have what the author calls a "paradox," which will remain a puzzle to most readers. The only logical conclusion from this evidence would indicate that the merger problem cannot be meaningfully tackled with statistical techniques.

"The empirical material of this study provides background for this issue of public policy and furnishes a basis for evaluation of some related proposals." However, the conclusions are essentially negative. "The net effect of mergers on competition is at present uncertain." On this basis the author suggests leaving matters as they are and waiting for future developments. Such a lack of conclusion will not appeal to the average reader, but this investigation was apparently intended mostly for the use of the specialist. As a broad

study of the merger problem of general interest to all or as a foundation for policy proposals, this book fails to close the gap. But fellow economists will be grateful for the statistical groundwork done by this study, which is a suitable building block for future efforts in this field.

R. W. Trenton
Oklahoma A. & M. College

BARRINGTON MOORE, JR.: *Terror and Progress USSR*. Cambridge, Harvard University Press, 1954. 261 pages. \$4.50.

NATHAN LEITES: *A Study of Bolshevism*. Glencoe, The Free Press, 1953. 639 pages. \$6.50.

The first of these books, by the author of *Soviet Politics—The Dilemma of Power*, is published under the auspices of the Harvard Russian Research Center and attempts an analysis of the existing stresses and strains within the USSR today. On the basis of this analysis, the author hazards some predictions on the possible alternative developments of the Russian system in the future. The areas investigated are those of industrialization, agriculture, and science and art, plus the function of systematic terror as applied in all areas. The analysis is based on available published Russian sources and on interviews with persons who have escaped from behind the iron curtain. The net result is to present a thoughtful and reasoned statement of the factors working within Russian society that are capable of producing either stability or change.

Moore concludes that there are three main lines of development along which

the evolution of the USSR might proceed. The first would be the continuation of the Stalinist tradition of totalitarianism and personal dictatorship, the second would be the advent to power of the technical classes and the consequent displacement of the party leadership, a sort of managerial revolution, and the third would be a lapse into traditional Byzantine tyranny with the continuation of the party bureaucracy, accompanied by a reduction in efficiency of control and the appearance of greater freedom in the daily lives of the subjects. The dominance of any one of these possibilities, or combination of them, depends on potentials existing within Russian society itself, plus the impact of external forces upon the Soviet Union. The author opts no specific solution but leaves the question open, suggesting, however, that an awareness of the three trends is essential to any evaluation of current and future developments within the USSR.

Leites in his *Study of Bolshevism* attempts to deal with the problem of analyzing the Russians from a somewhat different point of view. Basing his study on an analysis of selected passages from older Russian literary masters, as well as from Marx, Lenin, and Stalin, he seeks to develop a set of rules governing Communist political strategy. At the same time, he gives the reader an insight into the intellectual world of Russian thought in which communism developed. In a sense his present work is an expansion of his 1950 book, *The Operational Code of the Politburo*, published, like this one, under the auspices of the Rand Corporation. The chief value of Leites's present work lies in the wealth of quotations it contains. The author is con-

tent to let the formulators of Russian thought speak for themselves and merely ties together their statements in chronological order. He thus makes available to the reader a mass of material not otherwise attainable and often previously untranslated. Out of this he develops his set of rules for Communist strategy, showing them to be evolutionary in character and conditioned by pressures within soviet society itself. By understanding these rules, one is able to comprehend the thought process of the Communist leaders and perhaps to predict the strategic maneuvers of the Politburo in the area of world affairs.

Both works under review are of considerable value to students of communism and the USSR. Moore is perhaps the more objective and cautious of the two, while Leites is the more theoretical, building his structure around selected passages from Russian works. This latter technique may be criticized on the grounds of the basis of selection, and this the author freely admits in his introduction where he frankly states the assumptions and limitations of his approach. It is this reviewer's feeling that the author, and the reader for that matter, need have no fear on this score, for the selection has been wide and the conclusions reasonably deduced. Both books are worthy representatives of the two institutions that sponsored them and deserve careful study by students in the field.

H. Malcolm Macdonald
University of Texas

BELLE ZELLER (ed.): *American State Legislatures* (Report of the Committee on American Legislatures, Amer-

ican Political Science Association), New York, Thomas Y. Crowell Company, 1954. 294 pages. \$3.50.

This volume is the report of the Committee on American Legislatures of the American Political Science Association and is the result of a four-year study of state legislatures. From even a casual study of the report it is quite obvious that our state legislatures are poorly equipped to serve as policy-determining agencies in mid-twentieth-century America. This is all the more tragic because the importance of state legislatures has, despite the expansion of federal powers, grown enormously within recent decades. The committee feels, however, that with proper reorganization, the legislatures can once again function as dynamic policy-forming agencies. In order to further this idea, the committee has collected in this volume a body of factual data upon which to base its evaluation of state legislatures and its recommendations for their reorganization. If even part of these recommendations could be carried out, the legislatures would be in better position to meet the needs of their states.

There is little new in the book, but it brings together much scattered information on state legislatures and many suggestions for their improvement. To this reviewer the most interesting feature is the two appendices. One, dealing with the unicameral legislature in Nebraska, is a much-needed, current evaluation of the operations of unicameralism in Nebraska. The verdict is favorable. The other appendix deals with that interesting legislative device, the joint committee, as used in Massachusetts, Connecticut, and Maine.

Again the verdict is favorable. The bibliography is well organized. The committee and Miss Zeller, its chairman and the editor of this volume, are to be congratulated on this report.

Dick Smith
Tarleton State College

CHESLY MANLY: *The Twenty-Year Revolution: From Roosevelt to Eisenhower*. Chicago, Henry Regnery Co., 1954. 272 pages. \$4.00.

A veteran writer for the *Chicago Tribune* here undertakes to describe, in vivid style essentially without documentation, various aspects of economic and political change. The approach is primarily negative. The value of the book is almost exclusively that which can be found in the summary of a point of view.

A few chapter headings suffice to index the frame of reference: "Communism and the New Deal," "The War on Business," "He Lied Us into War," "The Far Eastern Treason," "Revolution by Treaty." After nine months of the Eisenhower administration, Manly contends "it was apparent that the revolutionists had no cause for alarm. . . ."

In his final chapter the author advances what amounts to a sketch of the proposals of the American Party as envisaged by Colonel Robert R. McCormick. Its chief tenets include reduction of federal expenditures, foreign and domestic, emphasis on economic development through private capital, withdrawal from the United Nations, national defense based on a concept of air-sea striking power, the end of diplomatic relations with communist coun-

tries, and a realignment of political parties. This last proposal includes, as a detail, perhaps, the suggestion that "the New Deal Republicans join the New Deal Democrats . . . [and] call themselves Social Democrats. . . . Let the free Republicans and the free Democrats join the American Party." Manly does not attempt to say how such a program could be accomplished, nor does he analyze its effects upon our political institutions.

Franklin L. Burdette
University of Maryland

GEORGE W. BARCLAY: *Colonial Development and Population in Taiwan*. Princeton, Princeton University Press, 1954. 274 pages. \$5.00.

Barclay has made a thorough analysis of population trends in Formosa in terms of what they reveal about Chinese society and their relationship to social and economic change during the fifty years of Japanese rule. Seven censuses were taken during this period, which, the author finds, "often ranked in quality well above the more advanced censuses of the Western world." Careful periodic enumerations were part of the Japanese system of civil control. Attention has been centered on the "Taiwanese" population composed of descendants of the Chinese who migrated from adjacent mainland provinces. Further migration was largely halted by the Japanese after 1895. The aborigines "ceased to be an important part of the population by 1905," while the Japanese are treated chiefly in terms of their role in eco-

nomic development and its influence on Taiwanese society.

During the half-century of colonial rule, Taiwanese more than doubled in numbers. Relatively simple public health measures, energetically administered by the Japanese, achieved a marked reduction of mortality. As nothing was done to change familial traditions geared to past mortality expectations, birth rates remained high even in the cities. The author concludes that Japanese policies in fact "frustrated the types of social changes that might have induced Taiwanese to lower their fertility."

Agriculture was surrounded with capital improvements designed to increase farm production and exploit it more effectively. Output was oriented to provide a regular contribution of semiprocessed food and agricultural commodities to Japan. In the much talked-of "industrialization" program, nearly all skilled personnel were Japanese, recruited from the Home Islands. Sugar processing and a small metallurgical industry received substantial government assistance as military preparations became paramount during the 1930's. But "extended industrial development was an afterthought." It came too late for the Japanese to effectively use the human resources of the island.

In conclusion, the author seeks to give his findings regarding Taiwan a wider application and offers some thoughtful observations on the situations that may face agrarian nations seeking to impose industrialization without modifying traditional society.

Raymond K. Rossiter
Columbia University

Other Books Received

September, 1954

- Barclay, George W.: *A Report on Taiwan's Population to the Joint Commission on Rural Reconstruction*. Princeton, Princeton University, Office of Population Research, 1954. 120 pages. \$2.50.
- Barker, Sir Ernest, Sir George Clark, and Paul Vaucher (eds.): *The European Inheritance*. 3 vols. New York, Oxford University Press, 1954. 543, 391, 406 pages. \$6.75, \$16.80 set.
- Bloom, Gordon F. and Herbert R. Northrup: *Economics of Labor Relations*. Rev. ed. Homewood, Illinois, Richard D. Irwin, Inc., 1954. 784 pages. \$6.00.
- Brown, Francis J.: *Educational Sociology*. 2d ed. New York, Prentice-Hall, 1954. 677 pages. \$5.00.
- Burns, James MacGregor and Jack Walter Peltason: *Government by the People: The Dynamics of American National Government*. 2d ed. New York, Prentice-Hall, 1954. 905 pages.
- Chinoy, Ely: *Sociological Perspective: Basic Concepts and Their Application*. New York, Doubleday & Co., 1954. 58 pages. \$.85.
- Congar, Yves M. J.: *The Catholic Church and the Race Question*. Paris, UNESCO, 1953. 62 pages. \$.40.
- Daland, Robert T., assisted by David A. Johnston: *A Brief Survey of Municipal Auditing Practices in Alabama*. University, University of Alabama, Bureau of Public Administration, 1954. 10 pages.
- Daland, Robert T.: *Some Aspects of Municipal Utility Administration in Alabama*. University, University of Alabama, Bureau of Public Administration, and Montgomery, Alabama League of Municipalities, 1954. 26 pages.
- Drury, James W.: *Township Government in Kansas*. Lawrence, University of Kansas, Governmental Research Center, 1954. 66 pages.
- Ferguson, John H. and Dean E. McHenry: *Elements of American Government*. 2d ed. New York, McGraw-Hill Book Co., 1954. 649 pages. \$5.00.
- Forms of City Government*. 3d ed. Public Affairs Series No. 13. Austin, University of Texas, Institute of Public Affairs, 1954. 28 pages. \$.50.
- General Assembly Action, 1954: A Staff Summary of Legislative Enactments*. Informational Bulletin No. 11. Frankfort, Kentucky, Legislative Research Commission, 1954. 36 pages.
- Goodman, William: *Inherited Domain: Political Parties in Tennessee*. Knoxville, The Bureau of Administration, University of Tennessee and University of Tennessee Record Extension Series, Vol. XXX, No. 1, 1954. 95 pages. \$1.50.
- Grimes, Marcene: *Kansas Primaries: Our Nominating Process*. Lawrence, University of Kansas, Governmental Research Center, 1954. 35 pages.

- Hamilton, Charles Granville: *Lincoln and the Know-Nothing Movement*. Washington, Public Affairs Press, 1954. 24 pages. \$1.00.
- Henshaw, Richard C., Jr.: *Natural Gas: A Selected and Annotated Bibliography*. Austin, University of Texas, Bureau of Business Research, 1954. 61 pages. \$1.50.
- Holmes, Arthur W. and Robert A. Meier: *Intermediate Accounting*. Rev. ed. Homewood, Illinois, Richard D. Irwin, Inc., 1954. 834 pages.
- Jones, Clarence Fielden and Gordon Gerald Darkenwald: *Economic Geography*. Rev. ed. New York, The Macmillan Co., 1954. 612 pages. \$6.75.
- Lawson, Harry O.: *Municipal Finance: A Study of Nine First-Class Cities*. Lawrence, University of Kansas, Governmental Research Center, 1954. 35 pages.
- Lipson, Leslie: *The Great Issue of Politics: An Introduction to Political Science*. New York, Prentice-Hall, 1954. 431 pages. \$5.25.
- McCune, Ellia: *Metropolitan Los Angeles: A Study in Integration*. IX. *Recreation and Parks*. Los Angeles, Haynes Foundation, 1954. 76 pages. \$1.75 cloth, \$1.25 paper.
- Macdonald, Austin F.: *Latin American Politics and Government*. 2d ed. New York, Thomas Y. Crowell Co., 1954. 712 pages. \$6.00.
- New York State Education Department, Bureau of Secondary Curriculum Development: *Mathematics: 10-11-12: An Integrated Sequence for the Senior High School Grades*. Albany, University of the State of New York, 1954. 87 pages.
- Roeder, William S. (compiler) with an introduction by Harry Elmer Barnes: *Dictionary of European History*. New York, Philosophical Library, 1954.
- Runes, Dagobert D.: *Letters to My Daughter*. New York, Philosophical Library, 1954. 131 pages. \$2.50.
- Schanck, Richard L.: *The Permanent Revolution in Science*. New York, Philosophical Library, 1954. 112 pages. \$3.00.
- Smith, Dick: *How Bills Become Laws in Texas*. Rev. ed. Austin, University of Texas, Institute of Public Affairs, 1954. 18 pages. \$50.
- Stryker, Lloyd Paul: *The Art of Advocacy: A Plea for the Renaissance of the Trial Lawyer*. New York, Simon and Schuster, 1954. 306 pages. \$5.00.
- Thompson, Ralph B. and Robert A. Jones: *A Retail Trade Area Survey of Austin, Texas*. Austin, University of Texas, Bureau of Business Research, 1954. 79 pages. \$2.00.
- Trumbull, Robert: *India Since Independence*. Headline Series No. 105. New York, Foreign Policy Association, 1954. 62 pages. \$35.
- United Nations: *Report on International Definition and Measurement of Standards and Levels of Living*. New York, United Nations, 1954. 95 pages. \$80.

United Nations: *Special Study on Social Conditions in Non-Self-Governing Territories: Summaries and Analyses of Information Transmitted to the Secretary-General During 1952*. New York, United Nations, 1953. 270 pages. \$2.00.

Whittlesey, Charles R.: *Principles and*

Practices of Money and Banking. Rev. ed. New York, The Macmillan Co., 1954. 579 pages. \$6.25.

Ximenes, Vicente Treviño: *Natural Gas in New Mexico*. Albuquerque, University of New Mexico, Bureau of Business Research, 1954. 73 pages. \$1.25.

News and Notes

General

ROY L. MCPHERSON has resigned as secretary-treasurer of the Association. The Executive Council has elected LEON C. MEGGINSON of Louisiana State University to serve as secretary-treasurer for the unexpired term.

THE UNIVERSITY OF TEXAS is inaugurating with the academic year 1954-55 a Bachelor of Arts degree program in Eastern European Studies. A student may concentrate in Eastern European Studies while meeting requirements for a B.A. degree in economics, geography, government, or history. Departments of anthropology, geology, and sociology will offer related courses. The program provides intensified training in Russian, Czech, and, at a later date, in other Eastern European languages, and includes formal course work, faculty-student discussion periods, lectures by visiting authorities, and possibly overseas training periods. The program offers work for three groups of students: (1) those who plan to enter governmental agencies or private business in which a knowledge of Eastern Europe will be needed, (2) those who plan to obtain a master's or doctor's degree, and (3) those who want a liberal arts education with concentration on Eastern Europe. The program will include studies of the Soviet Union, the Baltic states, Poland, Czechoslovakia, Hungary, Rumania, Bulgaria, Albania and Yugoslavia. The area pro-

gram on Eastern European Studies is guided by a faculty committee whose members are: H. M. MACDONALD, government; MURRAY POLAKOFF, economics; O. H. RADKEY, history; CARL ROSENQUIST, sociology; and G. W. HOFFMAN, geography, as chairman.

Accounting

VOL GENE EDMONDSON returned to his professorship in accounting at the University of Oklahoma following a year's leave of absence. During that time he served as a consultant to the Oklahoma State Hospital Association.

GEORGE FAIR, Louisiana State University, has been promoted to assistant professor of accounting.

N. G. SULLIVAN, of the accounting division of the School of Business Administration, North Texas State College, is on leave of absence during the summer of 1954 and the long session of 1954-55 to continue work toward a doctorate at the University of Texas.

OTHEL D. WESTFALL received a Ph.D. degree in accounting at the June commencement of the University of Texas. Dr. Westfall was recently promoted to professor of accounting at the University of Oklahoma.

WILLIAM E. WHITTINGTON has returned to the accounting department, Texas Technological College, as associate professor, having

been on leave for two years for graduate study at the University of Illinois.

Agricultural Economics

JOE R. CAMPBELL, associate professor in the Department of Agricultural Economics and Sociology, Texas Agricultural and Mechanical College, resigned his position effective June 1 and has joined the Agricultural Economics Department at Louisiana State University.

ROLAND J. HILDRETH joined the staff of the Agricultural Economics and Sociology Department, Texas Agricultural and Mechanical College, on July 1. Assistant professor in the Farm Management Section, he will devote two-thirds of his time to research and one-third to teaching.

PETER NELSON, head of the Department of Agricultural Economics, Oklahoma Agricultural and Mechanical College, was retired to professor emeritus on July 1, 1954. **L. F. MILLER**, formerly of Pennsylvania State College, has been appointed to succeed Dr. Nelson.

Business Administration

RAYMOND L. BRITTON, who has been part-time lecturer in business law at North Texas State College during 1953-54, will join the staff of the School of Business Administration in September as instructor in law.

HORACE R. BROCK, formerly of the University of Arkansas, will join the staff of the School of Business

Administration at North Texas State College in September as assistant professor of accounting. He received a Ph.D. degree from the University of Texas in May, 1954.

HORACE B. BROWN, dean of the College of Business Administration and professor of marketing at the University of Oklahoma, was elected vice-president of the American Association of Collegiate Schools of Business at its annual meeting at Harvard University on May 1. Dean Brown is a former secretary-treasurer of the Association.

JOHN DUNBAR, professor in the College of Business Administration of the University of New Mexico, was on sabbatical leave for the second semester of 1953-54. He devoted the time to studying tax and accounting problems of the petroleum industry of the state.

MILTON GOLDBERG, instructor in business administration, Louisiana State University, has been granted a sabbatical leave of absence during 1954-55 to complete the requirements for a doctor's degree at Indiana University.

BERNARD HANES, executive director of Personnel Research Consultants, Dallas, will be a part-time lecturer in business psychology at North Texas State College School of Business Administration in September, 1954.

PEARCE C. KELLEY, professor of marketing at the University of Oklahoma, will teach in the 1954 Graduate School of Retail Management at Rutgers University.

WILLIAM H. KEOWN, professor and chairman of the Department of Business Management at the University of Oklahoma, received a Ph.D. degree in business management in June at the University of Wisconsin.

RAYMOND V. LESIKAR, formerly of the University of Texas, has been appointed associate professor of business administration, Louisiana State University.

LEON C. MEGGINSON, Louisiana State University, has been promoted to associate professor of business administration.

WILLIAM J. PARISH, of the College of Business Administration of the University of New Mexico, was on sabbatical leave for the second semester of 1953-54. He is completing a book in the field of business history that concerns a mercantile firm of New Mexico.

FRANK ALONZO ROSS, assistant professor at Texas State College for Women during the spring of 1954, has joined the staff of the School of Business, North Texas State College, as assistant professor of statistics.

VERNON G. SORRELL, dean of the College of Business Administration, University of New Mexico, is on sabbatical leave for the first semester of 1954-55. He will spend most of the time visiting universities and colleges in Scotland and England. **WILLIAM J. PARISH** will be acting dean in his absence.

HERBERT BOB STELLMACHER, formerly assistant professor at the

University of Houston in 1953-54, will join the staff of the North Texas State College School of Business in September as assistant professor in marketing.

LLOYD VALENTINE, assistant professor of business administration, Louisiana State University, has resigned to accept a position at the University of Cincinnati.

ALFRED C. WELCH will join the staff of the College of Business Administration of the University of New Mexico, beginning the fall semester as a teacher of marketing. Dr. Welch has taught marketing at the Wharton School and has recently been engaged as a market research director with an advertising agency.

Economics

RUTH A. ALLEN, professor of economics, University of Texas, has been given research leave for the first semester of 1954-55.

JOE C. ASHBY has accepted a position as assistant professor of economics at Lamar Technological College, Beaumont, Texas.

HENRY C. CHEN has been appointed part-time instructor in the Department of Economics and Finance at the University of Houston. Dr. Chen formerly taught at Fairleigh Dickinson College in New Jersey.

JULIAN S. DUNCAN, chairman of the Department of Economics, University of New Mexico, spent from December, 1953, to May, 1954, in Brazil as transportation specialist for

the firm of Klein and Saks. This company has a contract with the government of Brazil to advise it on problems of food distribution.

T. H. McKINNEY has been appointed as instructor in the Department of Economics, University of Oklahoma.

SUMANT K. MURANJAN, principal and professor of banking, Sydenham College, Bombay, India, who was visiting lecturer in economics at the University of Texas, Department of Economics, for the second semester, 1954, has returned to his college in India.

W. D. ROSS, Louisiana State University, has been promoted to professor of economics.

CAREY C. THOMPSON, assistant professor of economics at the University of Texas, holder of a Ford Foundation Fellowship for the academic year 1953-54, has returned to the University of Texas after a semester's study at Harvard and Massachusetts Institute of Technology.

KENNETH M. THOMPSON, Louisiana State University, has been promoted to associate professor of economics.

JOHN L. WORTHAM, associate professor of economics at Texas Christian University, received a Ph.D. degree from the University of Texas in May, 1954. His dissertation was titled "A Description of the Basic Sales Forecasting Principles with a Specific Application of These Principles to a Truck Trailer Manufacturing Firm."

Geography

THE UNIVERSITY OF KANSAS

CITY is sponsoring a field tour—Geography 440a—to Montana for the first two weeks of August, 1955. This tour will provide an opportunity for students, teachers, and any others interested to study the geology and geography of Montana in considerable detail. A chartered bus, equipped with loudspeaker, will be used to tour Montana and visit areas of particular geographic and geologic interest. Two hours of college credit may be obtained for this course.

TEN TEACHERS OF GEOGRAPHY met in Austin, Texas, June 14, 1954, to discuss ways and means of improving instruction in this field. The group organized the Texas Council of Geography Teachers. Temporary officers were elected and plans were made to meet with the Geography Section of the Texas State Teachers Association in November.

MARY EVELYN BLAGG, instructor of government at North Texas State College, received a Ph.D. degree in political science at Duke University in June, 1954.

FLORENCE CULLIN, North Texas State College, attended the joint meeting of the National Council of Geography Teachers and National Council for Social Studies in Buffalo, New York, November 26-27, 1953. She was appointed State Co-ordinator in Texas for National Council of Geography Teachers.

DON EIDENMILLER, assistant professor of geography, Agricultural and Mechanical College of Texas, is

on leave for a year to do further graduate study at Indiana University.

Government

E. RAY GRIFFIN, instructor in government at North Texas State College, returned to the department in June, 1954, after two years of graduate work in the Department of Political Science at Duke University.

ROBERT J. HARRIS has resigned as professor and head of the Department of Government at Louisiana State University to accept an appointment as professor of political science at Vanderbilt University, effective September 1, 1954.

RENE DE VISME WILLIAMSON has been appointed professor of government and chairman of the Department of Government at Louisiana State University and assumed his new duties in September, 1954.

History

THE NORTH LOUISIANA HISTORICAL ASSOCIATION will hold its third annual meeting on the campus of Louisiana Polytechnic Institute in April, 1955.

EDWARD E. DALE, research professor emeritus, University of Oklahoma, has accepted an invitation from the University of Houston for the year 1954-55 to lecture on the history of the West, the Southwest, and the American Indian.

E. A. DAVIS, head of the Department of History, Louisiana State University, is on sabbatical leave for

the first semester, 1954-55, doing research in Mexico on a forthcoming history of Mexico City.

ROBERT A. DIVINE, formerly of Yale University, has been appointed instructor in history, University of Texas, effective September, 1954.

GILBERT C. FITE has been promoted to the rank of professor in the Department of History, University of Oklahoma. Dr. Fite is the recipient of a Ford Fellowship for study in the field of economics at the University of Oklahoma and Harvard University during the year 1954-55.

JOHN H. FRITZ, formerly of Princeton University, has been appointed instructor in history, University of Texas, effective September, 1954.

L. U. HANKE, distinguished professor of Latin-American history and director of the Institute of Latin American Studies, University of Texas, has assumed the editorship of the *Hispanic American Historical Review*.

BARNES F. LATHROP, professor of history, University of Texas, has been granted leave of absence for the long session 1954-55 to accept a faculty fellowship from the Fund for the Advancement of Education, enabling him to travel in the South and to reside for a term at Yale.

WILLIAM E. LIVEZEY, professor of history, University of Oklahoma, has accepted the deanship of the College of Arts and Sciences but will continue to teach one course each semester in the history of Europe, 1500-1789.

G. W. MCGINTY, professor of history and department head, Louisiana Polytechnic Institute, has completed two articles on Louisiana, one for the *National Encyclopedia*, and the other for *Collier's Encyclopedia*.

WILLIAM M. PEARCE, associate professor of history, Texas Technological College, has been named head of the Department of History, Anthropology, and Sociology, effective September 1, 1954. Dr. Pearce succeeds W. C. HOLDEN, who resigned the departmental chairmanship to devote full time to teaching and to directing the museum.

OLIVER H. RADKEY, associate professor of history, University of Texas, has received a grant from the Research Council of the University of Texas to permit him to take leave during the first semester of 1954-55 to finish a book on the Russian Social Revolutionary party.

OTIS A. SINGELTARY, formerly of Louisiana State University, has been appointed instructor in history, University of Texas, effective September, 1954.

LESLIE F. SMITH, associate professor of medieval history, University of Oklahoma, has received a Fulbright Research Award for 1954-55.

DAVID D. VAN TASSEL, formerly of the University of Wisconsin, has been appointed instructor in history, University of Texas, effective September, 1954.

WALTER PRESCOTT WEBB, distinguished professor of history, Uni-

versity of Texas, has been elected president of the Mississippi Valley Historical Association.

JOHN D. WINTERS, associate professor of history, who has been on leave the past year completing his residence work for a doctorate at Louisiana State University, returned to his duties at Louisiana Polytechnic Institute in September.

Sociology

THE SOCIOLOGY DEPARTMENT, University of New Mexico, is sponsoring an Institute of Labor Relations in co-operation with the New Mexico State Federation of Labor. ELLIS SCOTT is director of the Institute.

CARL BACKMAN, instructor of sociology, University of Arkansas, received a Ph.D. degree from Indiana University in June, 1954.

E. JACKSON BAUR, on sabbatical leave during the past academic year pursuing a research study of the decision-making processes of boards of voluntary associations in Kansas City, will return to full-time duty in the Department of Sociology and Anthropology, University of Kansas.

CARROLL D. CLARK, chairman of the Department of Sociology and Anthropology, University of Kansas, will be on sabbatical leave during 1954-55. He holds a study grant from the Fund for Adult Education and will make Cornell University his headquarters throughout the year while studying adult education programs in the East.

HELEN ELLIS, professor of social work, University of New Mexico, has returned after a year's sabbatical leave spent at Smith College and at Boston Psychopathic Hospital.

E. GORDON ERICKSEN has been promoted to associate professor of sociology, University of Kansas. The Macmillan Company recently published his textbook *Urban Behavior*.

PAUL BRECK FOREMAN, professor of sociology, Oklahoma Agricultural and Mechanical College, on leave during 1953-54 on a project under the Office of Research Organization at Bethesda, Maryland, has resigned to become head of the Department of Sociology at the University of Alabama, effective September 1, 1954.

MARSTON M. MCCLUGGAGE, professor of sociology and human relations, will be acting chairman of

the Department of Sociology and Anthropology, University of Kansas, during DR. CLARK's leave of absence. During the past year he served as acting chairman of the Department of Human Relations while the chairman, HILDEN GIBSON, was on sabbatical leave.

ROGER WARD NETT, assistant professor of sociology, Oklahoma Agricultural and Mechanical College, has resigned and has returned temporarily to the state of Washington.

DAN RUSSELL, professor in the Department of Agricultural Economics and Sociology, Texas Agricultural and Mechanical College, has been granted a year's leave of absence. While on leave, he will be organization specialist with the Food and Agriculture Division in Haiti.

R. L. SKRABANEK, Department of Agricultural Economics and Sociology, Texas Agricultural and Mechanical College, has been promoted to associate professor. Dr. Skrabanek devotes two-thirds of his time to teaching and one-third to research.

CARLYLE S. SMITH has been promoted to associate professor of anthropology, University of Kansas.

MARION WAGGONER, of the sociology department, University of Tulsa, is on leave of absence. ELWIN H. POWELL has been appointed to his place. Professor Powell is completing his work on a doctorate at Tulane University. He will teach a section of introductory sociology, social institutions, and criminology.

BACK ISSUE WANTED

In order to complete the collection of the *Southwestern Social Science Quarterly* in a large university library and to have at hand sufficient copies for similar needs, the Association wishes to acquire several copies of the *Quarterly*, Vol. 19, No. 1 (June, 1938), and Vol. 27, No. 4 (March, 1947).

The Association will pay \$1.00 for each copy of these issues sent to Frederic Meyers, Editor, Department of Economics, University of Texas, Austin 12, Texas.

ORRY C. WALZ, part-time instructor in sociology, University of Kansas, received his doctorate in June and has accepted a temporary position as associate professor of sociology at Eastern Central State College, Ada, Oklahoma.

CHARLES K. WARRINER, assist-

ant professor of sociology, University of Kansas, devoted half his time the past year to exploring problems in the theory of social organization through research in a medium-sized hospital at Kansas City, Missouri. He returns to full-time teaching duties this year.

THE AMERICAN ECONOMY

PRINCIPLES, PRACTICES, AND POLICIES

By C. LOWELL HARRISS, Columbia University

One of the most widely used texts for the principles of economics course, this book features (1) an unusually interesting writing style, (2) strong analytical chapters and outstanding handling of economic content, (3) a wealth of up-to-date institutional material, and (4) a new and better balance in approaches. H. P. Bell, reviewing the book in *American Economic Review*, says, "[This text] on general merit should receive a place close to the top."

BUSINESS AND ECONOMIC STATISTICS

By WILLIAM A. SPURR, Stanford University, LESTER S. KELLOGG, The Deere Company, and JOHN H. SMITH, The American University

Written in nontechnical English, this is the kind of elementary treatment of business and economic statistics that has been greatly needed. It eliminates archaic and impractical procedures, employs short-cut graphic methods instead of the usual complex mathematical analysis, and uses practical business problems as illustrations. Provides an unusually good selection of topics. First adoptions include City College of New York, Ohio State University, Oklahoma Baptist University, University of Houston, University of Buffalo, University of Pennsylvania, and many others.

PERSONAL FINANCE

PRINCIPLES AND CASE PROBLEMS

By ARTHUR W. HANSON, Harvard Graduate School of Business Administration, and JEROME B. COHEN, College of the City of New York

Written in a readable and interesting style, this new text is packed with useful information and offers a substantial and thorough treatment of all phases of the subject, including expenditure and budgeting, buying on time, savings accounts and savings bonds, using the bank, all types of insurance, social security, buying a home, investments and security analysis, investing in a small business, taxes, and wills, trusts, and estates.

Write for Examination Copies

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